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January 13

BusinessWeek

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JANUARY 13, 1992

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WHAT'S AHEAD FOR AMERICA'S 24 KEY INDUSTRIES

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If there's one thing all bankers have in common, be they from Toledo or Timbuktu, it's the desire to serve their customers better, cross-sell more effectively, help the bank achieve greater success.

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profiles to available banking services. The kind of information that could reside on a dozen or more independent computer systems from just as many different vendors.

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NAS FROM DIGITAL

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A technology based on industry standards makes AS possible. With it, users have the power to access and the information residing on multiple systems. Whether those systems exist today or have yet to be introduced.

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Steps Aside First.

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of the LS400 luxury sedan.

Everything found within has been designed not only to meet your needs but to anticipate them.

For example, when you are ready to leave the cabin, the car will

neatly execute a point of etiquette: automatically (if you choose) the steering wheel column

will raise itself up and out of your way as soon as you remove the key.

But what goes up must come down. When you enter the cabin, the

column will lower itself into your hands to its precise pre-set position the moment you insert the key.

Of course, all this discussion about entering and leaving should not distract you from the subject of driving. Only *that* experience is hard to capture on paper. To try to somehow tabulate the serenity and quiet of the well-appointed cabin will not do the LS400 justice.

So for a test drive, see your dealer. He will answer your questions, wait patiently for your comments, show you every courtesy.

See? Chivalry is not dead.


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The Relentless Pursuit Of Perfection.





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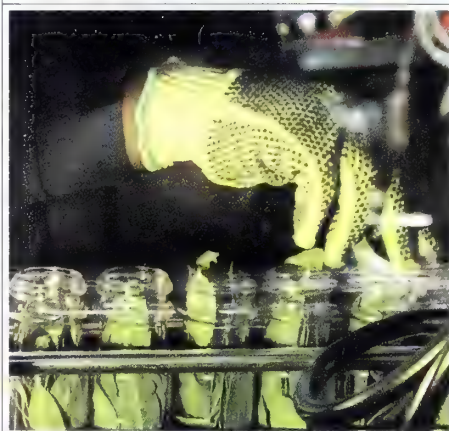
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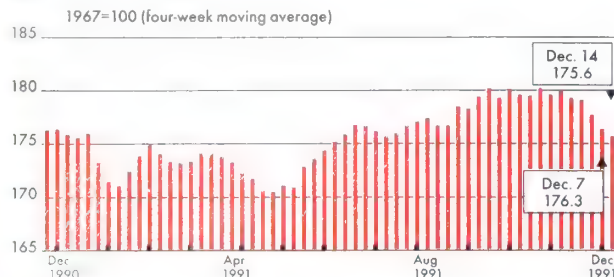
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BusinessWeek Index

PRODUCTION

Change from last week: -0.4%
Change from last year: 0.1%

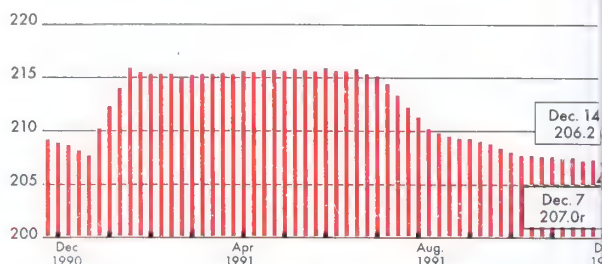


The production index declined in the week ended Dec. 14, but the drop reflects the shortened workweek during the Thanksgiving holiday, which is holding down the four-week average. In the latest week, seasonally adjusted output of electricity and paperboard fell. Steel, truck, crude-oil refining, paper, coal, and lumber output increased. Rail-freight traffic and auto output were unchanged. Before calculation of the moving average, the index fell to 175.5 from 175.7.

BW production index copyright 1991 by McGraw-Hill Inc.

LEADING

Change from last week: -0.4%
Change from last year: -0.9%



The leading index lost a little ground during the week ended Dec. 14. A decline in materials prices and slower growth in M2 offset the positive signs: lower bond yields, fewer business failures, and a small improvement in the growth rate in real estate loans. Stock prices were virtually unchanged from the prior week. Before calculation of the four-week moving average, the index declined to 205.7 from 205.7 in the previous week.

Leading index copyright 1991 by Center for International Business Cycle Research

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
STEEL (12/21) thous. of net tons	1,650	1,751#	1.5
AUTOS (12/21) units	120,589	126,507r#	33.0
TRUCKS (12/21) units	73,364	76,898r#	113.7
ELECTRIC POWER (12/21) millions of kilowatt-hours	59,523	54,965#	6.5
CRUDE-OIL REFINING (12/21) thous. of bbl./day	13,468	13,434#	4.8
COAL (12/14) thous. of net tons	20,420#	19,321	-4.3
PAPERBOARD (12/14) thous. of tons	769.8#	775.1r	-0.7
PAPER (12/14) thous. of tons	790.0#	769.0r	1.3
LUMBER (12/14) millions of ft.	514.8#	483.1	9.4
RAIL FREIGHT (12/14) billions of ton-miles	21.0#	20.7	0.0

Sources: American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Paper Institute, WWPA¹, SFPA², Association of American Railroads.

FOREIGN EXCHANGE

	Latest week	Week ago	Year ago
JAPANESE YEN (12/30)	126	128	136
GERMAN MARK (12/30)	1.52	1.57	1.52
BRITISH POUND (12/30)	1.87	1.83	1.90
FRENCH FRANC (12/30)	5.19	5.37	5.17
CANADIAN DOLLAR (12/30)	1.16	1.15	1.16
SWISS FRANC (12/30)	1.35	1.39	1.30
MEXICAN PESO (12/30) ¹	3,049	3,060	2,944

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound expressed in dollars.

PRICES

	Latest week	Week ago	% Change year ago
GOLD (12/30) \$/troy oz.	353.150	357.900	-8.0
STEEL SCRAP (12/27) #1 heavy, \$/ton	94.00	93.00	-11.3
FOODSTUFFS (12/26) index, 1967=100	204.6	205.9	-1.3
COPPER (12/28) c/lb.	102.0	102.0	-12.4
ALUMINUM (12/28) c/lb.	51.3	51.0	-27.7
WHEAT (12/28) #2 hard, \$/bu.	4.16	4.08	50.7
COTTON (12/28) strict low middling 1-1/16 in., c/lb.	52.23	54.29	-26.1

Sources: London Wednesday final setting, Chicago market, Commodity Research Bureau, Metals Week, Kansas City market, Memphis market.

LEADING INDICATORS

	Latest week	Week ago	% Change year ago
STOCK PRICES (12/20) S&P 500	384.34	379.98	1.1
CORPORATE BOND YIELD, Aaa (12/20)	8.31%	8.35%	-0.5
INDUSTRIAL MATERIALS PRICES (12/20)	93.2	94.2	-1.1
BUSINESS FAILURES (12/13)	386	477	-19.5
REAL ESTATE LOANS (12/11) billions	\$395.6	\$395.2	0.1
MONEY SUPPLY, M2 (12/9) billions	\$3,402.4	\$3,405.2r	-0.08
INITIAL CLAIMS, UNEMPLOYMENT (12/7) thous.	493	414	19.1

Sources: Standard & Poor's, Moody's, Journal of Commerce (index: 1980=100), Dun & Bradstreet (failures of large companies), Federal Reserve Board, Labor Dept. CIBC seasonally adjusts data on business failures and real estate loans.

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Change year ago
ORDERS FOR DURABLE GOODS: MFG. (Nov.) billions	\$124.7	\$123.3r	1.1
PERSONAL INCOME (Nov.) annual rate, billions	\$4,878.7	\$4,886.0r	-0.02
CONSUMER SPENDING (Nov.) billions	\$3,951.9	\$3,926.0	0.6
BUDGET SURPLUS OR DEFICIT (-) (Nov.) millions	-\$45,466	-\$35,976r	26.4

Sources: Commerce Dept., Treasury Dept.

MONETARY INDICATORS

	Latest week	Week ago	% Change year ago
MONEY SUPPLY, M1 (12/16)	\$898.7	\$895.4r	0.4
BANKS' BUSINESS LOANS (12/18)	291.9	290.8r	0.4
FREE RESERVES (12/25)	1,118	502r	-22
NONFINANCIAL COMMERCIAL PAPER (12/18)	134.9	133.1	-1.3

Sources: Federal Reserve Board (in billions, except for free reserves, which are expressed for two-week period in millions)

MONEY MARKET RATES

	Latest week	Week ago	Year ago
FEDERAL FUNDS (12/27)	4.14%	4.50%	7.16
PRIME (12/30)	6.50	7.50	10.00
COMMERCIAL PAPER 3-MONTH (12/27)	4.53	4.56	8.14
CERTIFICATES OF DEPOSIT 3-MONTH (12/30)	4.30	4.43	8.13
EURODOLLAR 3-MONTH (12/21)	4.45	4.45	7.89

Sources: Federal Reserve Board, First Boston

#Raw data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment
1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

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Some people seem to believe that as you go up the ladder in business jets, you run out of things the airplane can do.

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Exactly the opposite is true, of course.

As a business jet gets bigger, as its flight management and aircraft systems get more advanced, as its engines become more akin to those that power airliners, and the wider its performance envelope becomes, the *more* it can do.

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makes you, you there.

A well-managed Gulfstream IV can become a unique asset in a corporate aircraft operation. In fact, it is perfectly plausible to expect this one amazing machine to do as much as two lesser aircraft, and perhaps even more.

There is no question about its long-range prowess. The Gulfstream IV has the endurance and speed to fly nearly 5,000 statute miles non-stop in about 9.5 hours; the reliability of its engines and systems helps make every hour pass placidly; and a big, roomy cabin makes every mile go by comfortably.

It brings these same capabilities to shorter trips and, in the right hands, does it with surprising efficiencies and cost-effectiveness. In a survey of Gulfstream IV operators by a major aviation publication,* most reported that *"they have found the Gulfstream IV to be economically practical for trips ranging anywhere from one hour to 9.50 hours in duration..."*

Its size is a plus in helping achieve optimum utilization. The Gulfstream IV can take more passengers farther faster than any other business aircraft. (And, in our experience, people seldom pass up the opportunity to ride in it and pilots always want to fly one.)

Despite its size, the Gulfstream IV can get into and out of hundreds of airports where you normally find only smaller jets. And that's not simply because of its sparkling performance, but because it is also a good neighbor.

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engines, is quiet enough to come and go there anytime, day or night. (It all suggests you can plan on going almost anywhere you want to go—which is the fundamental reason to operate any business jet.)

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TWO QUALITY SERVICES AMERICANS TAKE FOR GRANTED

You missed two quality services available in the U.S.: the telephone and the Postal Service ("The Quality Imperative," Special Issue, Oct. 25). If defects are to be measured as bad connections per million calls made or pieces not delivered per million pieces mailed, then both are tops. Telephones and mail boxes are available everywhere. Both services are inexpensive—what else can you get for the 29¢ cost of a first-class stamp or the 25¢ cost of a local call?

In the U.S., most people place their own calls. Phone service in Venezuela is so bad that executives have a secretary to make phone calls. This introduces extra people in the process, and a lot of time is wasted until both executives finally get on the line. This alone must cost Venezuela thousands of wasted man-hours.

In the U.S., millions of bills (for telephone, gas, electricity, credit cards, water, BUSINESS WEEK, etc.) are delivered and paid by mail. In Venezuela, no one dares put a check in the mail. Consequently, payments are made in person, and, again, thousands of man-hours are wasted.

In the U.S., the telephone and the Postal Service are marketing tools (telemarketing, junk mail). The telephone supports other services such as E-mail, fax, 800 and 900 numbers, and emergency (911) services. It is so good and so apparent that your writers didn't even think about it (except for the software glitch that paralyzed the system for a few hours). The good news is that Venezuela just sold 40% of its state-owned telephone system to a private group headed by GTE.

Denny Schlesinger
Caracas

HOOVER THOUGHT THE ECONOMY WAS SOUND, TOO

Why are your Business Outlook prophets so sure this engineered "soft landing" is a recession ("The recovery was a lemon to begin with. No wonder it broke down," Dec. 2)? Ever

since Adam Smith wrote the book on the dismal science of economics, depressions have afflicted capitalist economies. Yes, I know most respectable economists pooh-pooh any mention of big "D," and the President says, "The economy is fundamentally sound" at every photo opportunity. But I'm certain he would change his tune if he realized Hoover sang that swan song of the roaring '20s in 1929.

Every panic, bust, slump, and economic upheaval since Adam Smith's day was unbelievable before the fact: Witness the last Depression. The inaugural address of Herbert Hoover on Mar. 4, 1929, was a rosy scenario worthy of Ronald Reagan, revealing how blind a President can be to portents of disaster. And notwithstanding the market volatility that fall (nowadays, too) followed by the Great Crash in October, most bank titans, business tycoons, and market soothsayers—not to mention celebrated dismal scientists—didn't have a clue either. They kept on parroting "our economy is fundamentally sound" even while it hurtled headlong into the abyss.

Henry Fogel
Lexington, Mass.

LET THE BANKS PAY FOR THEIR OWN BAILOUT

Regarding the banking mess ("How deep is the hole?" Top of the News, Dec. 9), there is no more justification for using tax money to bail out the banking industry than there is to save the airline or any other industry. Under the deregulation craze, which began in the 1970s, we have produced the equivalent of what was known as "wildcat banking" before the National Bank Act of 1863 was passed. It is about as easy to open a bank as it is to open a pawnshop.

The glut of banks led bankers to make loans to anyone who walked in, knowing that the federal government would make up the losses. Moreover, large banks were and still are co-conspirators in the takeover rampage, by which barracudas could, in many cases using not one dime of their own money, take over a company, strip it of its assets, and leave the carcass for the innocent scavengers. (That wave of destruction must be recognized as one cause of the current re-

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Readers Report

ession; Congress should have nipped it the bud.)

Rather than using tax money, Congress should impose a tax on the banking industry and let it pass that along as fast as it can. To tax poor people and members of the working class, many of whom don't even have bank accounts, is unconscionable.

If government is to assume the losses wrought about by the bankers, then it should reap the profits. On that basis, then, why not nationalize the entire financial industry? (I know. Mr. Bush and her "conservatives" would call that interference with "private enterprise.")

Mack A. Moore

Professor of Economics
Georgia Institute of Technology
Atlanta

NORTHWEST AIRLINES' ONSTOP FLIGHT TOWARD QUALITY

In the article "Straighten up and fly right," (The Quality Imperative, Special Issue, Oct. 25) you refer to the efforts of Northwest Airlines to "overcome its past." As a long-term resident of Japan with roots in the U. S. Midwest, I have been flying the Northwest system for over 10 years. Just this past year, I have been on more than 15 Northwest flights, both transpacific and domestic, and have been seated in economy, executive, and first class. Over the years, I have observed a steady improvement in Northwest service in terms of on-time performance, the attentiveness of the cabin staff, and the efficiency and positive attitude of the ground personnel, which have been nothing short of remarkable. If Northwest can do it [improve service and quality] within the constraints of the airline industry, any U. S. company can.

Thomas L. Clark
Tokyo

RETURNING THE PIGEON RIVER TO ITS PRISTINE STATE

Your article "The next war between the states could be over clean water" (Top of the News, Dec. 16) omitted seemingly obvious and vital ingredient: resolutions. You characterized tensions between North Carolina and Tennessee resulting from the discharge of treated wastewater by Champion International in Canton, N. C. These tensions reached peak in 1989, when it appeared that regulations on the amount of natural wood color entering the Pigeon River from the Canton pulp-and-paper mill could curtail production and jobs at the facility.

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Readers Report

s embarked on comprehensive modernization of the mill. When the \$250 million project is completed in late 1993, the Pigeon River's color and odor will be reduced substantially. The mill will use much less fresh water from this mountain stream and still provide jobs for hundreds of people, which of course is good news for the environment and the economy.

David A. Craft
Champion International Corp.
Canton, N. C.

IE JAPAN AN BLINDER DOESN'T KNOW

know that Alan Blinder is knowledgeable about economics, but the unmistakable misperceptions I noticed in his article ("How Japan puts the 'human' in human capital," Economic Viewpoint, p. 11) left me wondering if he knows anything at all about Japan, Japanese companies, or Japanese economics. I've spent only the past eight-plus years studying Japan, Japanese companies, culture, language, and society, and I feel that I can say with some confidence that Blinder missed the mark.

Blinder seems to have totally overlooked the fact that the hiring and subcontracting systems of both U.S. and Japanese companies are completely different. While Japanese companies continually spout that they offer stable careers for their employees, they never mention all the contracts with subcontractors that get cut or that do not get renewed. And those subcontractors in turn do lay off employees. In the end, there are probably just as many Japanese workers who get laid off or take a hit in pay as there are in the U.S. during economic recessions.

Blinder also implies that Japanese workers are full of good ideas that "bubble up" to management. This idea came from the West, and although it may have been lost in Western companies for couple of decades, I do not know of an American company today that does not have just as strong, if not stronger, programs to float good ideas up to management as the best Japanese companies have.

Finally, Blinder implies that Japanese companies are extensively involved in profit-sharing and offer this to their employees as a benefit. Yes, they do, but it's not as lucrative as Blinder may think. It would be interesting, however, to track a cross-section of beginning employees at U.S. companies today with a similar pool of Japanese employees and see who owns their own homes, land, apartments, automobiles, etc. 10 years from now. If I were a betting man, I

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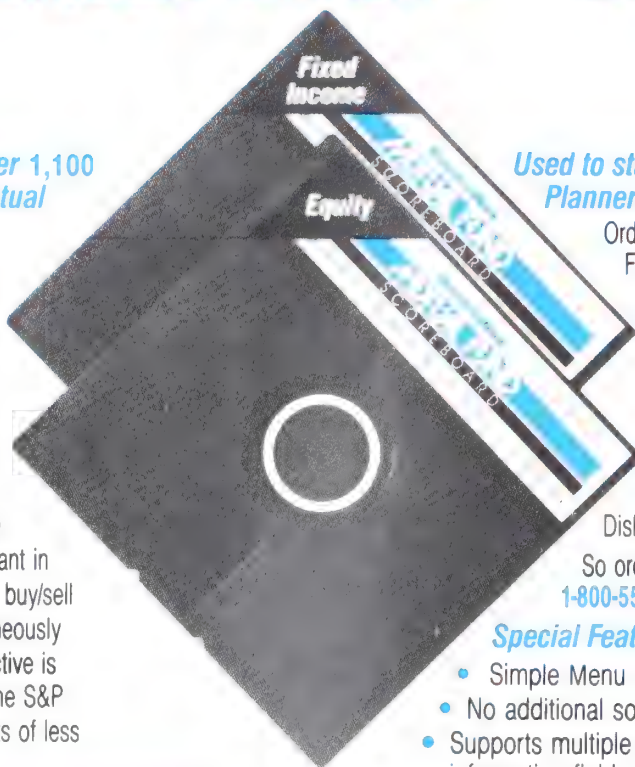
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Readers Report

ould put my money and confidence in American companies and in the U.S. economy. What about you, Mr. Blinder?

Trey Roper
Tokyo

THE PROS AND CONS PUBLIC-WORKS SPENDING

Robert Kuttner's "Bush can no longer shy away from public investment" (Economic Viewpoint, Nov. 18) and your article "How to light a fire under the economy" (Editorials, Nov. 18) would be required reading for all U.S. representatives and especially for President Bush. The President's monotonous requests for a cut in the capital-gains tax is foolish when there will only be a mild one-year stimulus on tax receipts and no effect on savings.

There are billions spent each year on congressional "pork," which seems impossible to reduce without a Presidential veto (which is also unlikely). Let the representatives keep the pork if it is directed to public works in their districts. Repair of highways and bridges will benefit the country more than rebuilding Lawrence Welk's home and renovating military bases scheduled for demolition.

M. W. Brunson
Asheville, N. C.

Your Economic Viewpoint sounds plausible but will not achieve the hoped-for benefits. The private U.S. companies that are contracted to revitalize our infrastructure will purchase their cars, trucks, construction equipment, and other supplies from Japan and import inexpensive labor from Mexico. Unless you can assure that all equipment, supplies, and labor will be American, the proposal will increase U.S. tax and exacerbate our trade deficit.

R. O. Evans
Bakersfield, Calif.

Kuttner blames the oversupply of office buildings on "the genius of the private market." He should have realized that the "hundreds of billions of dollars" that financed the office boom came from banks protected by the Federal Deposit Insurance Corp. The irrational lending of that money was made possible by the interference of the public sector, not the private market.

Gregory Monte
Union City, N. J.

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THE DEVIL'S CANDY: THE BONFIRE OF THE VANITIES GOES TO HOLLYWOOD

By Julie Salamon

Houghton Mifflin • 434pp • \$24.95

PRESENT AT THE BIRTH OF A TURKEY

What could they have been thinking? That was how just about anyone with even a glancing knowledge of Tom Wolfe's *The Bonfire of the Vanities* reacted to early reports of the movie version. The boyish, amiable Tom Hanks as Sherman McCoy, Wolfe's supremely arrogant Master of the Universe? Bruce Willis, the smirking one-note action star, as Peter Fallow, the dissolute British journalist? And saucy comedienne Melanie Griffith as Maria Ruskin, the drop-dead-gorgeous seductress for whom McCoy risks everything? What was this, the *National Lampoon's Animal House* version of Wolfe's acerbic distillation of the 1980s? What could they possibly have been thinking?

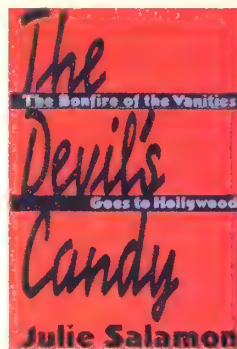
If you want to know the answer, read Julie Salamon's *The Devil's Candy: The Bonfire of the Vanities Goes to Hollywood*. Salamon, film critic for *The Wall Street Journal*, wanted to follow the making of a big Hollywood picture from beginning to end. In 1989, director Brian De Palma agreed to let her in on the production of *Bonfire*. That was lucky enough: *Bonfire* was one of the most talked-about and eagerly awaited films of 1990. But Salamon really lucked out: She got a ringside seat at a disaster-in-the-making. The \$50 million picture opened to almost universal scorn, took in just \$15.4 million in 45 days, then scuttled off to the video store with the unseemly haste of a true grade-B gobbler.

Because the reader knows what the filmmakers don't—that the movie will bomb—much of what happens in *The Devil's Candy* has the feel of chilling portent. Here's cinematographer Vilmos Zsigmond whistling past the graveyard as the filming approaches its end: "I really think we have the smell of a great movie here . . . I really think so. I feel it inside. We have all the ingredients there for a great movie."

As Salamon tells it, Zsigmond was right. The moviemakers did have terrific

ingredients: Wolfe's witty bestseller, a lot of money, and legions of dedicated, talented people. But whenever there was a choice to be made, it seems, they made the wrong one. The casting was obviously boneheaded: The studio wanted big box-office names to hedge its big-budget bet, and it figured that audiences would need likable characters they could identify with. The screenplay was shaped by the same pressures of cowardice and cynicism, so the bite and bitterness of Wolfe's story were dumbed down and sweetened up.

Boneheaded casting, a timid screenplay, and other blunders: How Hollywood made dreck out of Tom Wolfe's blockbuster



Those decisions, in turn, trapped the moviemakers in still worse choices. Take the casting of Willis, whose acting abilities Salamon politely describes as limited. "He simply couldn't turn off that insinuating smirk," she writes. "Much of the rewriting of the script over the past several weeks had been done to accommodate Willis, to make Fallow conform to what the star projected. More and more, their dissipated parasitic journalist was resembling a self-effacing tough guy with a troubled conscience." And you thought actors were supposed to mold themselves to the shape of their roles.

Reading Salamon's account of all this is like watching a car wreck in slow motion, only it's a lot more entertaining. There's plenty of good celebrity gossip: Melanie Griffith, for example, has her breasts surgically enlarged in the middle of the shooting, then, without warning,

presses her cleavage against De Palma's face. Salamon makes you want to hit Griffith, who whines, pouts, and sits on every male lap in sight. Tom Hanks comes off as that rarest of Hollywood birds, a modest, hard-working professional.

The complex portrait at the heart of *The Devil's Candy*, though, is that of De Palma. The director apparently has Salamon in on his most intimate thoughts, personal and professional, as he suffered the protracted agony of making his movie. He comes off as both imperious and vulnerable, the sort of man who has an assistant at his side to hand him decaffeinated cappuccinos and Players cigarettes at the merest gesture, yet is terribly wounded by criticism of his work.

You will come away from the book with the feeling that you know how movies are made—from what producers really do to how Steadicam operators walk backward to how sound effects are made. There's a bit too much of this nitty-gritty, but much of it is revealing and instructive. You'll never again be quite so uncomprehending or uninterested when credits such as "second unit director" or "Foley artist" roll by.

Salamon is a remarkably unintrusive guide to all this. She allows the story to tell itself, without interjecting much interpretation. Rather than opine about the excesses of big-budget moviemaking, she shows a budget in the process of ballooning out of control. And instead of offering a disquisition on the relations between studios and directors, she shows Warner Bros. executives and De Palma alternately bullying, manipulating, and flattering each other.

In fact, if there's a flaw in this book, it's that Salamon is too reluctant to offer her own reflections. Without much in the way of context or explanation, it's hard to tell how much of the chaos, waste, and strife in this book is unique to *Bonfire* and how much is part of the making of any big movie. It's equally hard to know just where this movie went wrong: Salamon has in the end told us how so many talented, hard-working, serious-minded people could make such a mess, but she hasn't told us why. Even so, in its black humor and its portrait of excess, arrogance, and foolishness, *The Devil's Candy* turns out to be a better mirror of the money-crazed milieu of

le's *The Bonfire of the Vanities* the movie ever had a chance of

BY MARK N. VAMOS

or Editor Vamos oversees *BUSINESS K's* media industry coverage.

BRIEFS

ITFUL PRACTICES:

NOMURA SECURITIES AND

JAPANESE INVASION OF WALL STREET

John E. Fitzgibbon Jr.

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FINISHED SAMURAI

Nomura Securities, the largest securities firm in Japan, made headlines in 1991 when its president resigned amid allegations of shady tactics. But the company's American subsidiary, Nomura Securities International Inc., allegedly skirted U.S. securities regulations as far back as the 1950s, while U.S. regulators looked the other way.

That's the assertion of John E. Fitzgibbon Jr. in *Deceitful Practices: Nomura Securities and the Japanese Invasion of Wall Street*. Fitzgibbon worked at Nomura in New York from 1962 to 1977, when he says he was fired for refusing to engage in illegal activity. The book is a firsthand account of the wrongdoing he alleges he witnessed.

Fitzgibbon charges that Nomura aided Japanese employees to sell stocks without being licensed by the National Association of Securities Dealers. He claims that Nomura, to get the jump on other U.S. underwriters, violated the law by plugging a stock offering before the prospectus was issued. And he chronicles his fruitless attempts, while subsequently employed at Sanyo Securities America, which is partly owned by Nomura, to interest Congress, the Securities & Exchange Commission, and the media in his allegations.

Certainly, *Deceitful Practices* is no *Barbarians at the Gate*. Fitzgibbon tells his story through a series of somewhat disjointed vignettes. The material is also burdened by technical explanations of Wall Street's workings, and much of it is dated. Although Fitzgibbon provides decent documentation of the charges he raises, the flawed writing tends to weaken his argument.

The picture Fitzgibbon paints of Nomura differs refreshingly from the stereotype of Japanese companies as ruthlessly efficient machines. He portrays Japanese colleagues as bumblers who couldn't make money despite what he depicts as their shameless flouting of the law. He also offers a dark description of the status of Americans within a Japanese company: U.S. employees, he

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Books

says, were treated as second-class citizens and kept on a short leash by the staff. In the end, the rare glimpse into a Japanese company proves more compelling than the purported illegality with which Fitzgibbon is preoccupied.

BY LEAH NATHANS

THE DEATH LOBBY:

HOW THE WEST ARMED IRAQ

By Kenneth R. Timmerman

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SADDAM'S ARMS SPREE

One of the side effects of Operation Desert Storm has been to lift the veil from Iraq's multi-billion dollar shopping spree for arms, both conventional, such as tanks and missiles, and nonconventional, such as nuclear weapons and nerve gas. The quest took off in 1974, when two events tragically coincided. OPEC engineers quadrupled oil prices, turning the carbon-rich Iraq into a financial powerhouse. And, in a policy switch, Iraq's longtime protector and arms supplier, the Soviet Union, refused requests from Saddam Hussein for fresh weapons to help fight a growing Kurdish insurgency. The result was a meticulously planned Iraqi program to diversify its suppliers in a bid to become the most powerful nation in the Middle East.

That meant a bonanza for companies such as France's Dassault, Germany's Messerschmitt-Bölkow-Blohm, and hundreds of others across Europe, the U.S., and Latin America. "The West," writes Kenneth R. Timmerman in this detailed study of how the Western democracies armed Iraq, "was a gigantic industrial supermarket, and Saddam was a cash-and-carry customer."

Most of the time, Western governments encouraged this deadly trade. Even when it came to the sale of highly sensitive dual-use technologies that would help Saddam get perilously close to constructing a nuclear arsenal, Paris, Washington, and Bonn seemed to look the other way. And all along, Iraqi officials were skillfully playing one government against another in the search for better deals and more access to restricted technology.

While marred by a slightly breathless tone, *The Death Lobby* is a sober study. As Timmerman notes, the system of export controls over sensitive technology just did not function. His well-researched book makes a cogent argument for tightening up such controls before the next Saddam actually goes off his bomb.

BY JOHN ROSS



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LET'S START THE NEW YEAR BY CUTTING THE DEBT LOAD

BY ALAN S. BLINDER



The Treasury can painlessly pare billions from its interest bill by refinancing the government's existing debt with bonds that mature more quickly at lower rates. Here's how it works

There is a painless way to trim the federal-budget deficit by \$5 billion to \$10 billion, maybe more. To do so, the government need not cut anyone's favorite program, raise anybody's taxes, or even enact any new legislation. The Treasury Dept. need only change its operating procedures in relatively minor ways.

What is needed to achieve this fiscal alchemy of gain with no pain? Voodoo economics? No. It is simply a matter of refinancing the public debt to take advantage of the unusual pattern of interest rates now prevailing in the marketplace. A simple analogy will help explain how this would work.

Imagine that you are the treasurer of a major corporation. Your company has a wide variety of bonds outstanding, which it is constantly rolling over. Standard corporate practice dictates that you borrow for terms ranging from three months to 30 years, even though you pay higher interest rates on your longer-term borrowings. For example, the 30-year bond rate typically exceeds the one-year loan rate by one or two percentage points. Thus, when one-year debt costs 6%, you expect to pay about 7.5% per annum to float 30-year bonds. Based on this typical pattern of what economists call "the term structure of interest rates," your company distributes its borrowing across the maturity spectrum in some traditional way.

But current market conditions are anything but typical. While you can borrow for one year at 4.5%, it costs you 7.8% to borrow for 30 years—roughly double the usual gap. The question is: What would you do? The answer, I submit, is that you would shorten the maturity structure of your borrowings considerably. Instead of floating 30-year bonds, you might choose to sell 10-year bonds. And you might replace some of your 5-year borrowings with 1-year borrowings.

BIG POTENTIAL. Today, the U.S. Treasury is in precisely this position. It can pare billions of dollars from the taxpayers' interest bill by refinancing the existing debt with shorter maturities. How much can be saved? I offer an illustrative calculation based on data on the current maturity structure of the federal debt and the interest rates in effect when this column was written.

Private investors currently hold almost \$370 billion of marketable government bonds with maturities between 10 and 30 years. The Treasury pays an average interest rate of about 7.7% on this long-term debt. If it simply refinanced all those bonds at the five-year government-bond rate of 6.2%, the annual savings would be \$5.5 billion. But why stop there?

Five-year debt bearing a 6.2% interest rate can be exchanged for one-year debt carrying a 4.5% interest rate, and so on. In fact, if \$770 billion in debt maturing between one and five years from now were replaced by one-year debt, annual interest costs would fall an additional \$7 billion. That's a total of \$12 billion in savings to the taxpayer. Politicians have fought and died for less.

This is just one example. Other refinancing patterns might make better sense. The point of the calculations is not to prescribe a specific plan but to demonstrate that the potential savings are huge.

Pulling off such a financial operation is not as easy as it sounds. Specialists will raise at least three objections. For one thing, the scale of the suggested refinancing is massive, amounting to perhaps a trillion dollars. That may give pause; but there is no need to do all at once, and sums that large routinely course through the world's financial system.

DEBT FOR SALE. Another objection is that if the government's bonds are callable, so it cannot simply prepay old bonds and issue new ones. While true, this is not a telling objection. First, the Treasury can and should stop issuing new long-term bonds. Second, it can sell its short-term debt and use the proceeds to buy back its long-term debt on the open market. The Federal Reserve System could even assist this operation by selling some of the Treasury bills it now holds in its portfolio to private investors and buying higher-yielding long-term bonds instead. Since any additional interest earned by the Fed comes right back to the Treasury, the taxpayers' bill would therefore be reduced.

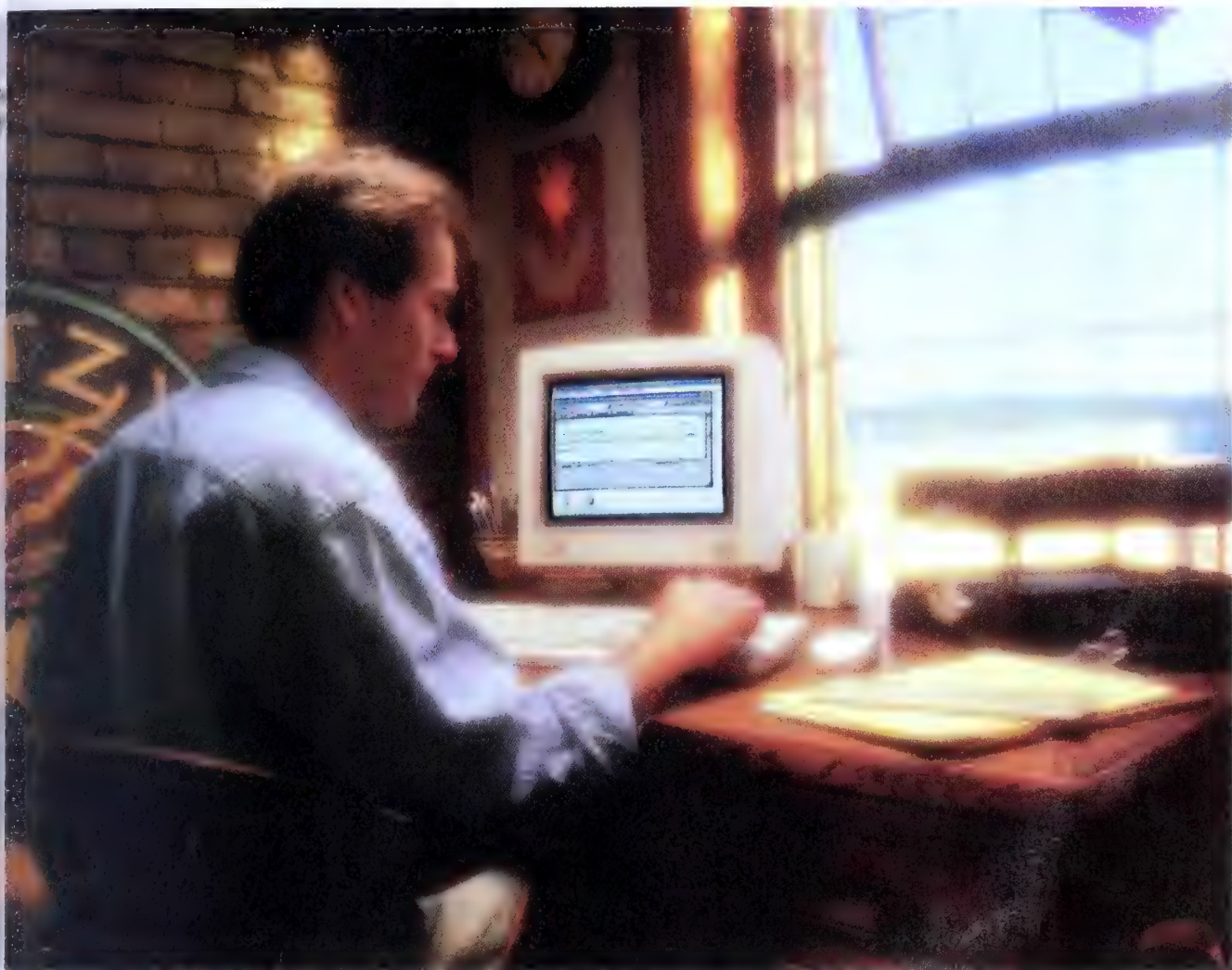
Finally, my simple calculations pretend that market interest rates would not react. This is probably wrong. In all likelihood, such a massive financial operation would push down long-term interest rates and force up short-term rates—thereby reducing the savings realized by taxpayers.

However, to the extent this happened, that would be an important offsetting benefit. Monetary policy has been trying to pull down long-term rates for months now, with meager success. Each easing by the Fed seems to cut short-term rates while long rates remain stubbornly high. If refinancing the public debt brought long-term rates down, it would achieve what has thus far eluded the Fed.

So we have one of those rare win-win situations. If market interest rates do not adjust, the taxpayer saves oodles. If they do, we get the lower long-term interest rates that have been seeking. Not bad. What are we waiting for?

ALAN S. BLINDER IS THE GORDON S. RENTSCHLER MEMORIAL PROFESSOR OF ECONOMICS AT PRINCETON AND THE AUTHOR OF *GROWING TOGETHER*

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BY MICHAEL J. MANDEL

STOCKS MAY BE HEADED FOR YET ANOTHER BOOM

What is prudent under one set of economic conditions can be a mistake under another. Over the past two decades, a booming housing market, high inflation, and thus attractive short-term interest rates have encouraged individuals to put their money into real estate and short-term financial assets such as certificates of deposit rather than stocks and longer-term bonds. Indeed, corporate equities, including mutual funds, as a share of discretionary financial assets held directly by households have shrunk from the roughly 40% of 20 years ago to about 18% today, a truly startling change.

But now the tide may be turning, argues Steven Einhorn and Abby Cohen, investment strategists at Goldman, Sachs & Co. They predict that individual investors, disappointed with CDs yielding 4% and shell-shocked from seeing the value of their homes fall, are going to start shifting their portfolios back to longer-term financial assets such as stocks and bonds. The net impact could be enormous, since a shift of only half of 1% of household assets represents \$55 billion. If Einhorn and Cohen are right, that's very welcome news for the stock market. Moreover, it's also a good sign for an economy that is perpetually starved for long-term funds, since an increased demand for stocks and bonds by individual investors could bring down the cost of capital for U.S. corporations and make them more competitive internationally.

THE WORLD REALLY IS GETTING SMALLER—IN OUTPUT, AT LEAST

The world's output of goods and services actually shrank in 1991, for the first time since World War II, according to just-released U.N. estimates. And the recovery in 1992 will be tepid. Unlike most international forecasts, the U.N.'s includes developing and former East bloc countries, as well as industrialized nations, and that drags the averages down in both years. In 1991, the Soviet Union and its satellites contracted by about 14%, the U.N. says. And it sees a further 10% drop in output this year for the former Communist bloc. With many industrialized countries ei-

ther in recession or flirting with it, the rest of the world isn't generating enough growth to offset the Communist bloc's collapse.

But the weakness in global growth is good news for inflation, says William P. Sterling, international economist at Merrill Lynch & Co. in New York. Economic turmoil in the former East bloc—big producers of metals and other raw materials—is putting “terrific downward pressure on world commodity prices,” argues Sterling. “They’re selling anything that’s not bolted down.” So the 6% drop in commodity prices over the past year may partially be a response to

A SLOW RECOVERY AROUND THE GLOBE



▲ ANNUAL PERCENTAGE CHANGE

DATA: UNITED NATIONS

the global contraction. And in 1992, problems in the new Commonwealth of Independent States should help keep a tight lid on world commodity inflation despite the recovery in the industrial countries.

THE NUMBER THAT LIED ABOUT THE RECOVERY

Back in the early summer most economic forecasters, including Fed Chairman Alan Greenspan, believed that the recovery was beginning to pick up steam. With the economy now clearly having stalled, perhaps even fallen back into recession, it may be time to ask just why so many people were so wrong.

One culprit may be the highly publicized Purchasing Managers' Index, which was rising sharply and sending a strong signal of recovery. That index, put out by the National Association of Purchasing Management, is based on a survey of about 300 purchasing managers. Each month, they are asked whether production, new orders, and employment at

their companies are rising or falling. In January, the index was at 38, which meant the economy was contracting. But in June, when the index jumped to over 50—the dividing line between recession and recovery—it seemed to be a clear sign that the recession was over and the economy was poised to advance. Indeed, the index rose as high as 55 in September, a level it has never topped except during recovery periods.

But this time, at least, the index turned out to point the wrong way. One reason, says economist Ethan Harris of the Federal Reserve Bank of New York, is that the index may be overrated as a reliable leading indicator. It gave a warning of the recession of 1973-75, for example, and incorrectly predicted a downturn in 1985. Moreover, the index started signaling recession in May, 1991, almost a year before the current one began. Harris notes that the managers surveyed are more likely to be from larger, older manufacturers—the sort of company that is becoming less and less representative of the overall economy.

THIS GENERATION GAP IS TRILLIONS OF TAX DOLLARS WIDE

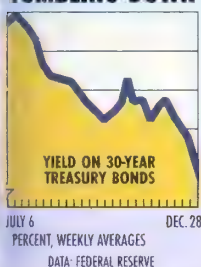
The federal budget deficit could go as high as \$375 billion this fiscal year. That number, representing spending from defense to Social Security not being paid for today by taxes, is almost too big to be comprehensible. But now there's another way of measuring the size of the bill waiting for future generations to pay. Economists Alan Auerbach of the University of Pennsylvania, Jagadeesh Gokhale of the Federal Reserve Bank of Cleveland, and Laurence Kotlikoff of Boston University calculated the tax payments that someone alive today can expect to make over his or her lifetime. They then subtracted the expected benefits from Social Security, Medicare, and other transfer programs. For most earners today, the economists found, taxes exceed benefits. An average 30-year-old male, for example, would pay almost \$200,000 more in taxes than he would receive in benefits, measured in 1989 dollars. Then the same calculation is made for future generations, assuming no change in government spending and tax policies. The result: Generations yet unborn will pay 20% more in net taxes than people living today.

What's more, the problem is getting worse. Unless the government raises taxes or cuts spending, say the three economists, this intergenerational gap is going to widen over time.

THE FED'S CHRISTMAS PRESENT WILL LOOK BETTER AS THE NEW YEAR AGES

The Federal Reserve's dramatic policy action on Dec. 20 contained a tacit message: We goofed. The Fed stopped cutting interest rates between May and July, 1991, on the gamble that a true recovery was place. It lost the bet. Now, the economy is hobbling in 1992 with hope that the central bank's game of catch-up will finally bring a lasting upturn. That hope seems justified, but Fed actions take time to work their magic. Until then, the latest data point to a rough winter for the economy. Consumers will struggle with a weak job market and sluggish income growth. Retailers will wrestle with heavy inventories of unsold holiday items. And manufacturers will face more backlogs in output, as orders remain sparse.

LONG RATES COME TUMBLING DOWN



The intended impact of the central bank's superaggressive cut in the discount rate—from 4½% to 3½%—along with its unexpectedly large drop in the federal funds rate—from 4½% to 4%—seems to be as much psychological as tactical. Before the moves, surveys showed no letup in the gloom pervading both consumers and businesses. The Fed's strongly accommodative

action seemed to say: Cheer up, we want to help. Wall Street certainly got the message. The stock indexes soared to record levels in late December on the belief that the Fed's shock treatment would bring the economy back to life (page 29). Stock prices are a leading indicator, and a continuation of the rally would be a good sign of recovery.

The bond market, laying aside its worries about inflation and irresponsible fiscal policy actions, also rallied. That pushed down long-term interest rates. The yield on 30-year Treasury bonds, for example, now stands at about 6.5% (chart), the lowest since March, 1987. Lowering rates lay the groundwork for stronger demand for housing and other durable goods once consumers get their finances in better shape.

MONETARY MOVES ARE STARTING TO WORK

It will take time for consumers to feel liquid again because debt loads are so heavy. But falling rates assure that the process will continue. Although most banks have cut their prime rate from 7½% to 6½%—the lowest since 1977—the big benefit of lower borrowing costs in a debt-laden economy is the opportunity to refinance debt at lower rates (page 30). Refinancing frees

cash flow for businesses and income for consumers.

Recent pickups in the growth rates of bank reserves and the money supply suggest that the Fed's efforts to relieve the economy are starting to work. Total bank reserves, the raw material of money, grew at an annual rate of more than 20% during the final four months of 1991, after no growth in the first eight months.

And the pace of the M2 money supply accelerated in the final three months of the year, including a much stronger-than-expected increase of \$9.2 billion in the week ended Dec. 16. Although M2 growth remains at the low end of the Fed's 2.5%-to-6.5% target range, the recent pickup in both reserves and the money supply suggests that the economy is becoming better positioned financially for a real recovery in 1992.



The boldness of the central bank's latest action precludes further easing for a while, but the Fed left room for another cut in the federal funds rate of up to a half-point if necessary this winter. The funds rate minus inflation remains positive. In past recessions, the Fed pushed the real federal funds rate below zero.

The Fed may well have to ease further, particularly if business in the first quarter is as weak as most companies expect. The latest Dun & Bradstreet survey of 3,000 executives nationwide shows expectations of sales and profits almost as low as they were during the gulf war. For peacetime, they are the lowest in nine years.

Manufacturers have little to cheer about. Makers of durable goods saw their orders rise a slim 1.2% in November, but bookings remained 4.6% below July. Shipments are going out faster than orders are coming in.

The backlog of unfilled orders fell for the third consecutive month in November. They dropped 0.5% to a two-year low (chart). That means demand already in the pipeline is dwindling. And with the outlook for consumer spending so poor this winter, output isn't likely to get much of a lift from new orders.

CONSUMERS STILL FRET OVER JOBS AND MONEY

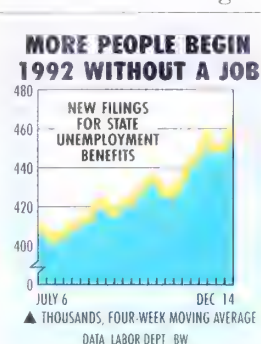
Consumers will have to wait—at least until spring—for the Fed's latest rate cuts to help the economy. For now, tight household budgets and job worries are keeping consumers out of the shopping malls.

Clearly, a flurry of pink slips is a big reason why holiday shopping was so dismal this year. In early De-

Business Outlook

cember, when consumers should have been out buying Christmas presents, a significant chunk were, instead, filing for unemployment benefits.

New claims for jobless benefits jumped to an annual rate of 493,000 in the week ended Dec. 7, then fell only a bit, to 473,000, in the following week. The four-week moving average of claims is up to a 464,000 pace in mid-December—the highest since early May (chart).



The next few weeks' data on unemployment claims will be skewed by state government office closings for the Christmas and New Year's holidays. But the recent high level of filings suggests that the nation's unemployment rate may have jumped above 7% in December.

Rising unemployment means any gains in incomes will be slight in coming months. In November, personal income fell by 0.1%. Wages and salaries were flat because of a sharp 1.1% decline in factory income. That drop was a reversal of the 0.8% gain in October, when some auto workers received bonuses.

Interest income fell 0.1% further in November, the fourth consecutive decline. That's one drawback in the Fed's easing move: Savers are earning less on their investments. But economywide extra cash from loan and mortgage refinancing should offset that loss.

Consumer spending, adjusted for inflation, increased 0.4% in November. However, households don't have the cash to sustain outlays at that pace in coming months. After adjusting for inflation and taxes, real disposable income dropped a sharp 0.5% in November.

Part of the spending increase reflected a 7.2% jump in demand for electricity and natural gas because of the

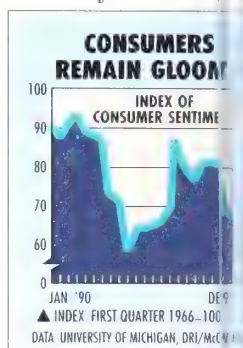
bad weather in November, and increased energy use a 0.7% gain in real spending on services.

Real spending for goods, which is more vulnerable to income shifts, fell 0.1% in November. That was the fourth consecutive drop in goods buying, suggesting a weak first quarter for makers of consumer goods.

Stagnant income growth leaves little extra cash for savings or for boosting consumer spending. Households saved only 4.7% of their disposable income in November, down from 5.5% in October, and 5.2% a year earlier.

For October and November, both real disposable income and consumer buying were no higher than they were in the third quarter. Flat outlays could be a big drag on the yearend gross domestic product. And until job and income growth picks up, consumers won't be able to lift their spending.

The unsettled outlook for earnings and jobs is keeping consumers' mood downbeat. The University of Michigan's index of consumer sentiment fell slightly in December, to 68.2 from 69.1 in November (chart). The index is back to its level of early 1991, when consumers were losing sleep over both the recession and the gulf war.



In addition, the Conference Board's index of consumer confidence edged lower in December. It dipped to 52.7 from 52.8 in November. Although the index came out of its October and November free-fall, the Board noted that an appreciable improvement in consumer spirits will be a prerequisite for an economic recovery.

The Fed's latest move was an acknowledgment that consumers' worries are not misplaced. The rate hike raises the odds for a sustainable recovery by spring. But in the winter, the economy will still be paying the price for the central bank's midyear misjudgment.

THE WEEK AHEAD

INSTALLMENT CREDIT

Wednesday, Jan. 8

Consumer debt probably held steady in November, after expanding \$0.8 billion in October, say economists surveyed by MMS International, a unit of McGraw-Hill Inc. However, installment debt may have risen slightly in November because consumer spending rose while personal income declined for the month. That split suggests that households used their credit cards to make some purchases. Growth in installment credit had been slowing in 1991. However, some consumers who are not using revolving credit are probably turning to home-equity loans as a source of cash. Unlike credit-card debt and auto financing, interest

paid on home-equity loans is still tax-deductible for most consumers.

PRODUCER PRICE INDEX

Thursday, Jan. 9, 8:30 a.m.

Producer prices of finished goods likely rose just 0.1% in December, after a mild 0.2% advance in November. The relapse of the industrial sector suggests that producers cannot make price increases stick. Excluding food and energy, prices probably also rose 0.2% last month, compared with 0.3% in November. Inflation at the producer level is virtually nonexistent. For all of 1991, prices likely grew just 0.3%—the slowest pace since 1986. Excluding food and energy, the annual rise should be about 3.2%—the smallest gain since 1987.

EMPLOYMENT

Friday, Jan. 10, 8:30 a.m.

Nonfarm businesses likely cut another 40,000 workers in December after slashing payrolls by a startling 241,000 in November, according to MMS economists. Most of the loss will be in factory jobs, which are expected to fall by 23,000. Retail payrolls, which declined by a scant 11,000 in November, were probably little changed in December. The deficit could be worse: In construction, some workers laid off during snowstorms in November were called back to work in December. The rising level of new claims for state jobless benefits suggests that the unemployment rate edged up to 7% in December from 6.8% in November.

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SEIZING THE DARK DAY

RECESSION CAN BRING UNEXPECTED OPPORTUNITIES

Alex and Martin Grass aren't cowed by cascading corporate layoffs and other signs of deepening economic gloom. To them, the distress means one thing: It's a great time to buy. The Grasses, a father-and-son team that runs Rite Aid Corp., are offering to acquire the bankrupt 1,140-store Revco D. S. Inc. chain for \$691 million in cash and stock. If they prevail on Jan. 8 over two competing bids, they'll mightily expand their 2,400-drugstore, 22-state empire. They can afford a big deal now because years of sharp merchandising and penny-pinching are paying off with rising sales, fatter margins, and higher earnings. Crows Chairman Alex Grass: "It's a good time for us."

Rite Aid may seem like an exception. But across Corporate America, many businesses are capitalizing on the recession, exploiting the opportunities that are the flip side of hard times. Instead of hunkering down, they're moving into new niches or building market share at the expense of timid competitors. "Doing nothing has the greatest risk," says Wendell E. Dunn, associate director of the Sol C. Snider Entrepreneurial Center at the Wharton School. "Firms that view bad times as bad times are inclined toward inaction, and inaction in tough times is very expensive."

LOST HORIZON. Hard times seem to heighten the risks of expanding—or of standing pat. Failing to snap up the assets of a struggling competitor can mean an opportunity lost forever. But loading up on debt—even now, with short-term credit cheaper than it has been in decades—can be risky, too. Other moves, such as turning out soup in budget-size cans, may be only slightly less risky, since demand for a cheaper but clunkier product could fade once the economy grows sprightly again. The key, experts say, is to take steps that promise to pay off both now and also when times improve (table).

Nobody knows that better than Anthony P. Terracciano, chief of New Jer-

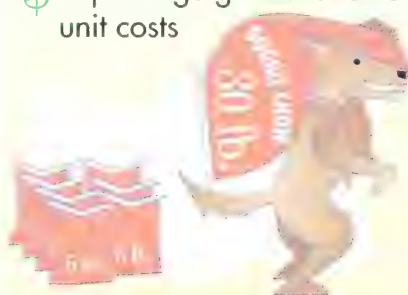
sey's biggest bank, First Fidelity Bancorp. When Terracciano was hired in early 1990 to rescue the then troubled \$29 billion bank, skeptics doubted his vow to expand. But he quickly trimmed overhead and wrote off bad loans. Now, he's taking his profitable operation on the acquisition trail. Since the fall of 1990, he has snapped up four distressed thrifts and a bank, snaring more than \$5 billion in deposits. The purchase of most of City Federal Savings Bank in New Jersey alone brought him more than 200,000 new customers. "This is a tough period for the whole economy," he says, "but when you have this type of stress, there are always some opportunities."

The fast-footed banker is no gambler. He has turned down nine deals for every one he has grabbed, opting for government-assisted deals that cost little. Also, he's shopping mainly for institutions based in his core New Jersey-Pennsylvania-Delaware market that mostly serve consumers and midsize businesses. And he has been closing nearly as many branches as he has acquired.

HOW TO MAKE HARD TIMES PAY

\$ Push products or services that save buyers money

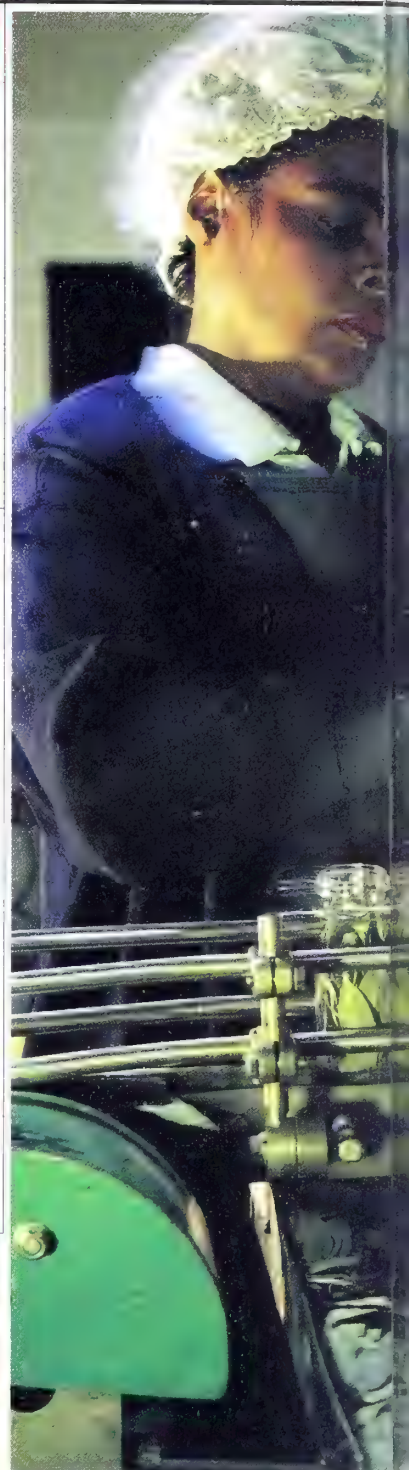
\$ Repackage goods to lower unit costs



\$ Focus on the parts of your business that add value to customers at the lowest price

\$ Keep current on fast-changing consumer demands

\$ Press suppliers for better terms



SPICEMAKING AT MCCORMICK: MORE HOME COOKING IS A BOON FOR STAPLE SPICES

Plenty of businesses are gaining, too, by serving up products that harmonize with the tenor of the times. Take Campbell Soup Co. Early in the recession, executives there spotted a consumer shift away from such higher-priced foods as ready-to-serve soups and toward cheaper cook-at-home products. So they took cream of broccoli soup out of a higher-end Gold Label can, cut the price, and packed it in the familiar red-and-white can. Then, they deftly marketed it with recipes as a base for homemade meals. Result: In little more than a year, it has sold more than 55 million cans, becoming the first new soup to crack the top 10 of Campbell's best-sellers since 1935. The company also has scored big by packing favorite soups in new, family-size, 26-ounce cans and cutting the unit price. "People are eating out less," says Campbell North America President Herbert Baum. "If we can provide good food at a good price, then we'll do well."

After engineering his own corporate makeover in 1990, Campbell Chief Executive David W. Johnson can afford to expand. His strategy: to aid consumers on tight budgets. In October, Campbell bought Sanwa Foods Inc., tripling Campbell's ramen noodle sales to \$60 million a year. Overnight, Campbell became the second-largest force in the \$300 million-a-year U.S. market for low-price Oriental noodles. Johnson's plan is to overtake No. 1 Nissin Foods Inc., a \$90 million company, with product innovations. One example: low-fat noodles.

Nor is Campbell the only food market taking advantage of hard times. Spice giant McCormick & Co. found a ready

market in the fall for its new Bag 'n Season product for turkey, which appeals to people steering clear of pricey beef. The product plays into the home-cooking trend that helped McCormick boost sales 8% and raise earnings a staggering 36%, to \$50.9 million, in the nine months ended in August. The company on Dec. 16 hiked its dividend 20%. What McCormick is losing in sales to food-service companies, it's making up in consumer sales of such mainstays as pepper, cinnamon, and vanilla extract.

One problem nowadays is that few competitors can afford to sit still. For example, Borden Inc. and Hershey Foods Corp. both must spend liberally to keep their No. 1 and No. 2 spots, respectively, in the still-expanding pasta business. With about \$300 million in pasta sales in 1991, Hershey claims nearly 25% of the action for branded pasta sold in U.S. supermarkets. That's about 7% less than fast-growing Borden. Even as Borden last fall was finishing a \$50 million noodle plant in St. Louis, Hershey tried a bit of one-upmanship by announcing plans for a \$60 million plant in Virginia. For both, growth likely will have to be internal, since Justice Dept. trustbusters last year quashed Hershey's bid for a Missouri pasta company. Still, now is a good time to be in the business. Even in bad times, "people continue to eat," says Hershey President Kenneth L. Wolfe.

BARGAIN BONANZA. Some investment firms are taking advantage of distress-sale prices. Since 1990, when the recession began, the Dallas-based investment firm of Hicks, Muse & Co. has landed seven deals worth \$1.9 billion for what it considers rock-bottom prices. Typical are the purchases for \$106 million of Neodata Services, the world's largest magazine-subscription company, and TMI Corp., a direct-mail and telemarketing outfit. Later, in a \$25 million deal, Hicks added the subscription services of Meredith Corp., publisher of *Ladies' Home Journal*. Put all that together, and Chief Executive Thomas O. Hicks is aiming for an annual return of at least 40% on the \$250 million contributed to his investment fund by the likes of the pension funds of GE Capital Corp. and American Airlines Inc. A tall order, but, Hicks observes: "The recession is definitely helping."

Another bargain-hunter is Giddings & Lewis Inc., a \$240 million machine-tool maker in Wisconsin. In October, it bought Cross & Trecker Corp., a rival nearly twice its size in sales. Since G&L is paying for the \$128 million deal mostly with stock, it is left with only about \$54 million in net debt. And G&L now becomes a global force in machine tools,

\$ Refinance to take advantage of lower interest rates

\$ Scout out good terms in real estate

\$ Take on low-priced debt for good buys, as long as you can pay the bills

\$ Plan ahead for recovery. It'll come eventually

DATA: SNIDER ENTREPRENEURIAL CENTER, BW

exploit competitors' problems—for instance, keeping higher inventories

Top of the News

ranking behind a trio of Japanese companies. It plans to capitalize on Cross & Trecker's big holdings in Europe to serve the auto industry and other metal-working businesses there. It's already winning new orders.

Yet none of these gains comes without pain—or risks. Domestically, G&L's move hurts, since Cross & Trecker has been in the red for years. One of G&L Chairman

William J. Fife Jr.'s first acts was to close C&T's Michigan headquarters and a Cleveland plant, helping to save at least \$25 million in annual payroll costs. And KT-Swasey, a troubled former unit of C&T in Milwaukee, still looms as a big turnaround challenge. Fife, who once ran much of what is now KT-Swasey, isn't daunted. "Not only is the investment community behind us," he boasts,

"but our customers are behind us. All across the economy, plenty of such opportunities are beckoning. That sure can be depressing news for many. Yet some players are grabbing silver lining that will still be valuable long after the clouds of recession have cleared.

By Joseph Weber in Philadelphia, with Wendy Zellner in Dallas, Zachary Schill in Cleveland, and bureau reports

WHERE GLOOM AND DOOM EQUAL BOOM

Denis duNann will be sorry to see the recession end. Although his company, Seattle-based Electronic Transaction Corp., is small, some of the nation's top retail executives have made room for him on their schedules. Why? They're worried about check fraud, and ETC has a low-cost solution: a check-verification data base. "They prevent rather than cure a problem for us," says Mike Meiberg, a business-systems buyer at J. C. Penney Co. "We know whether a check is good or bad before we take it." ETC signed on 115 new clients in 1991, including Wal-Mart and Kmart, and verified \$35.3 billion in checks, up 60% from 1990. "The recession is speeding up our growth," says duNann, ETC's president.

His company is not the only one to benefit from America's misfortune. Hard times always have brought new clients to the likes of bankruptcy lawyers, debt collectors, outplacement counselors, and liquidators. "Business is so good it makes me sick," says Lou Liuzzi, owner of Commercial Check Control, a large, Los Angeles-based collection agency. But this time, a few enterprising companies have found new niches.

TRUTH GAME. Ever heard of "sales testing"? Not many companies are hiring sales representatives these days, but when they do, they can't afford to make a mistake. Hiring one wrong person for a technical job can cost \$7,000 for the first three months in wasted salary and training, according to Gregory Lousig-Nont. His Las Vegas-based company markets honesty tests and drug tests. In June, 1990, he introduced a new test, screening skills rather than

personality, for companies hiring salespeople. His revenues last year jumped 60%, and his client list more than doubled. "When recession strikes and profits get lower, companies start to get very, very particular about whom they hire," says Lousig-Nont.

Consultants, too, do well if they focus on cost-cutting or restructuring. In Boston, Recovery Group found a big market in aiding New England banks. It also helps salvage small businesses hurt by the credit crunch. Saxonville Industries Inc. President Douglas P. Webb Jr. says Recovery Group saved

ers can mingle and network for jobs. She has yet to turn a profit, yet Merrill says confidently: "This is definitely the right time to be doing what I'm doing."

The retail industry, one of the hardest hit, has provided some surprising opportunities. Trying to cut back-office expenses, many retailers have farmed out legal work, data processing, and credit-card handling to outside companies. Taking advantage of this trend, ETC, which is a subsidiary of check printer Deluxe Corp., formed a new division in Dallas to handle bad-check operations. So far, clients include such big retailers as Ames Department Stores, Builder's Emporium, and Payless Shoes. "We expect this to grow rather substantially," says duNann.

Stores are also spending more on anti-shoplifting systems to cut inventory losses and make up for thinner sales staffs. Sales at Sensormatic Electronics Corp. in Deerfield Beach, Fla., jumped 31% in the six months ended Nov. 30. Profits, too, are up—by 27%. "Most retailers can't improve their bottom line by increasing sales, so they have to look at cost-cutting," says Sensormatic President Ronald G. Assaf. He has introduced new products, such as security labels on Blockbuster videos.

Even for those who thrive in recessions, the rise in bankruptcies poses risks. ETC has written off debts of ailing clients, and outplacement firms are taking losses as customers default or stretch out payments. Yet for most, that's better than the terrible uncertainty that comes with, gulp, recovery. *By Dori Jones Yang in Seattle, with Geoffrey Smith in Boston and bureau reports*



SERVICES SUCH AS CHECK-VERIFICATION COMPANIES ARE DOING SPLENDIDLY

his Vermont-based lumber wholesaler. "They kept the bank from sweeping us away," he says. Stephen S. Gray, a principal at Recovery Group, claims revenues are up 70%. "In the first half of 1991, we were turning down six to eight cases a week," he says.

The waves of white-collar layoffs have left a niche for "alumni clubs" catering to ex-employees of big-name computer makers. A former Prime Computer Inc. marketer in the Boston area, Caren Merrill, publishes newsletters, collates directories, and organizes reunion events where former co-work-

THE FED'S 'BLOWTORCH' HAS THE MARKETS BLAZING

Some bulls expect the Dow to hit 3500 during 1992 as cash flows in

On Wall Street, the holiday season can be the duller of times. From the days before Christmas through New Year's Eve, investors big and small often take vacations. Many of those who aren't away in body are otherwise engaged, enjoying long, liquid lunches at Delmonico's or what not.

This Christmas, investors find most of their celebratory tone cold sober. The Federal Reserve, which on Dec. 20 startled the financial world by slashing the discount rate a full percentage point, gave them all the reason they needed. And while the Fed made no bones about its intentions, the broad run of market gurus couldn't figure out what the discount rate cut implied. The pundits greeted the Fed's move with an elaborate shrug, pointing out that rates have been low for quite a spell now. Relatively easy credit has done nothing so far to rescue the economy from its malaise.

SCRAMBLING. A bull needs no guru. In a stunning turnabout in investor psychology, the Dow Jones industrial average soared 250 points in the six trading days following the cut in the discount rate. The broader gauges followed suit, with the Standard & Poor's 500-stock index climbing 8.6% to 415.14, and the Nasdaq index gaining 8.4% to 579.7. With 1991 slipping away and the market hitting fresh highs every day, individual investors piled ever more cash into equity mutual funds. As for the big-money portfolio managers—especially those who had trimmed their positions after the 120-point market break in November—they're now scrambling to get back into the stock market.

Every bull, it seems, is counting on George Bush's natural urge to win reelection this year—along with the Fed's renewed recession-fighting vigor—to keep the economy and the market on course. "Up until now, Greenspan has been trying to start a fire using a match," says George Vanderheiden, a portfolio manager at Fidelity Investments. "Now, he's using a blowtorch."



THE USUAL HOLIDAY BLAHS WERE ABSENT THIS YEAR

Adds Charles Clough, chief investment strategist at Merrill, Lynch & Co.: "There was a tremendous amount of symbolism in what the Fed did. The last time the Fed brought the discount rate to 3½% from 4½% was in 1930."

Lest anyone forget, stock market performance in the 10 years following 1930 was a tad wanting. And no mortal knows what the market's future holds—or the economy's, for that matter. That said, the holiday scene at Fidelity—mere days after General Motors Corp. announced thousands of layoffs—was compelling testimony to bedrock American optimism. Vanderheiden reported that at the mutual fund giant's Boston investment center, "lines are coming out the door." In December's final week, Fidelity had three times as much money flowing into its equity mutual funds as in the month's first week. The reason: Investors seem fed up with low returns on CDs and Treasury bills. Yields on three-month Treas-

ury bills recently dipped below 4%.

Shearson Lehman Brothers' Elaine M. Garzarelli, a market seer who made a big splash by forecasting the crash of October, 1987, believes the rally will keep running. Despite the impressive runup, she thinks stocks remain undervalued. Her forecast: a 3500 Dow this year, something she bases on a number of indicators, including monetary policy, which she expects will remain relatively easy. Garzarelli also notes that stock prices now are about 15 times estimates of 1992 earnings, not the 16.2 times that typically precedes a market drop.

MORE GREED. Yet in the world of greed and fear that rules Wall Street, probably a more immediate reason for the bulls' stampede is that the Fed's bold move simply caught many big money runners off guard. Now, they're rushing to make sure they don't miss the rally. Before the rate cut, many institutional investors were sitting on piles of cash, expecting to collect safe dividends while equities moved sideways or even plunged. That expectation proved wrong, so now the big (if not smart) money is scrambling in hopes that it will better the market averages. "It's a critical time," for professional investors, Garzarelli observes. "If they miss the first 10 to 15 days of the January rally, they can get fired."

If greed is taking up more room in investors' psyches, then it must be at the expense of imagination. So far, both money managers and investors seem to be making quite cautious buys. Money is flowing into the same stocks that did well in 1991—which is to say, growth stocks. At Fidelity, much of the new cash is flowing into growth funds. "The real focus continues to be on the Philip Morrises, Coca-Colas, and Mercks," notes Laszlo Birinyi, of Birinyi Associates, a market research firm.

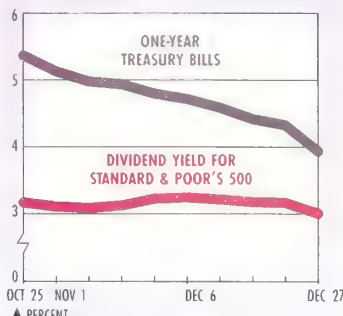
Edwin Powell, a portfolio manager at Provident Capital Management in Philadelphia, says that he expects cyclical stocks, such as papers, chemicals, and autos, to lead the Dow during the coming year. As investors begin to look toward economic recovery, "cyclical stocks are ready to get going again," he says.

Among his favorite picks are International Paper, Dow Chemical, and Monsanto. "I still subscribe to the notion that you can't fight the Fed," he says.

That is just about as old a saw as can be heard on Wall Street. But once again, it has also proved to be one of the most irresistible.

By Leah Nathans
Spiro in New York

STOCKS' APPEAL: HOW LOW RATES HELP



THIS MAY BE THE SWIFT KICK THE ECONOMY NEEDS

But it will take some time before the impact of lower rates is felt



THE LICHTENSTEINS: BY REFINANCING THEIR HOME, THEY CAN POCKET AN EXTRA \$300 A MONTH

Now interest rates are awfully nice. Just ask Michael and Rema Lichtenstein of Dracut, Mass. They're planning on refinancing their \$165,000, 10.375% mortgage at something under 8.5%. That figures to put "\$300 a month extra in our pockets," says Rema, a surgical nurse, "and that's better than in the bank's pocket." What will they do with the dough? Perhaps put some aside for their children's college education. Possibly step up their mortgage payments. Then again, says Michael, a 42-year-old furniture salesman: "Rema and I spend what we make, and the more we make the more we spend."

It's not just hard-pressed consumers who are relishing savings from the re-

cent drop in interest rates. Celestial Seasonings Inc., the maker of herbal tea, will save about \$250,000 on its 1992 interest payments tied to the prime rate, and another \$250,000 on the balance. The company is also thinking about refinancing the \$8 million in floating-rate bonds it sold to build its new headquarters in Boulder, Colo. "It's a good time to fix rates long-term," says Barnet Feinblum, Celestial's president.

TAKING THE CUE. It took strong action on the part of the Federal Reserve to send interest rates to their current levels. On Dec. 20, the Fed slashed the discount rate by a full percentage point for the first time in 10 years. It's now down to 3.5%, a rate not seen since 1964, when

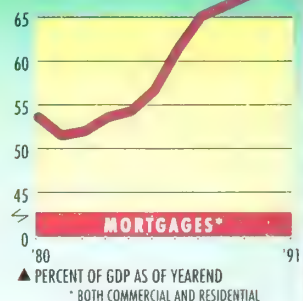
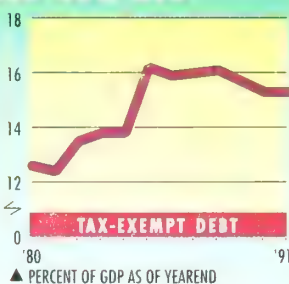
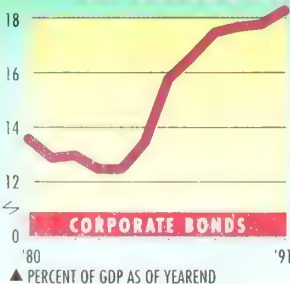
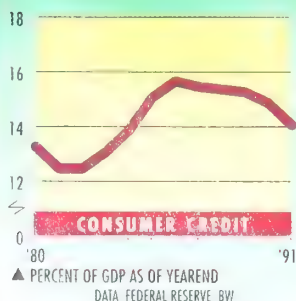
Lyndon Johnson was President. The Fed also pushed down to 4% the rate on federal funds, money that banks lend to one another overnight. Banks quickly took the cue and cut their prime rates to 6% from 7.5%. Yields on 10-year Treasury securities, at 6.7%, are at a 15-year low, and 30-year mortgages, at 8.35%, are at their lowest level in 18 years.

All this bodes well for the economy. In business cycles, the turn in the economy typically comes after rates fall far enough to allow both consumers and businesses to restore their tattered finances. Up until now, the Fed's policy of lowering rates by small increments has slowed that restorative process. Or now can households and businesses begin to benefit big-time from easier credit. In 1991, for example, the drop in rates saved homeowners with adjustable-rate mortgages about \$5 billion. They could save \$15 billion to \$20 billion in 1992, estimates Roger Kubaryc, manager at Henry Kaufman & Co. The financings of fixed-rate mortgages could save households tens of billions more. And nonfinancial businesses, which owe lenders about \$1.3 trillion in short-term debt, will find their yearly interest bill in 1992 fall by some \$50 billion from early last year.

Some parts of the economy do suffer when rates fall: most poignantly, the elderly, who are often dependent on income from interest (box). After totting up the positives and negatives, however, the economic consulting firm Lauren H. Meyer & Associates estimates that real economic growth could gain half a percentage point over the next four quarters. "The bottom line is, lower interest rates spark economic growth," says Christopher Varvares, an economist at LHM.

Will current rates get the economy growing again in earnest? Yes, but not right away. Historically, easier credit takes at least six months to work its way into the economy. Most economists now expect a genuine recovery to emerge only sometime in the second half of the year.

A NATION IN ROCK



THE UNKINDEST CUT OF ALL FOR OLDER AMERICANS

The latest cut in interest rates hasn't done any favors for Helga Holsten of St. Petersburg. Like many Florida retirees, she greeted the news with a sense of dread. "When I saw the interest rate being lowered, I said it would be a disaster," says the 63-year-old former bank teller. "And it really is."

The Federal Reserve's dramatic move to jump-start the faltering recovery by making credit more affordable has a deleterious side effect: Lower interest rates brake spending among the nation's savers. In addition, they incite worry among retirees who depend on interest income to meet expenses or for a sense of financial security.

Pensions and Social Security payments can buffer the impact for many retirees, including Holsten. Even so, with rates on certificates of deposit and other short-term savings vehicles plunging, there's consternation and concern. Robert K. Heady tracks savings rates in his *Bank Rate Monitor*, a North Palm Beach (Fla.) newsletter. Heady reports that the national average rate paid on a one-year CD has plunged from 9.51% in April, 1989, to 4.5% now. "Consumers can expect it to hit 4% by the end of January," he adds. "We haven't seen these rates since Roosevelt."

For Holsten, the lower rates mean more fretting about the future. With her house paid off and a monthly income of \$1,900 from her husband's Army pension and Social Security, her monthly costs are amply covered. But her husband died in July, 1990, from a lingering illness, and she worries that the "nest egg" she used to keep in CDs might not earn enough to cover her costs should she need care in the fu-

ture. "You have sort of a cushion in case something happens, and with fairly good interest rates, you're adding to that," she says. "But now it's going down, and nursing-home care is steadily going up."

RISKY BUSINESS. The rates are so low that when a CD paying 7.4% matured at the beginning of December, Holsten transferred the balance to a money-market account, since it was paying about the same and sometimes more than the 4.1% on a six-month certificate. She likes the thought of being able to get the money out quickly and invest it when interest rates turn up.

Many retirees find themselves in a similar financial limbo—unwilling to invest until the economic picture clears. But Albert L. Fort, senior vice-president of Harbor Federal Savings & Loan in Fort Pierce, Fla., which has lots of retiree deposits, sees some switching into uninsured funds. These retirees "are often the first to question about insurance on the \$100,000 limit," he says. "But they're willing to take a chance on funds that aren't insured for a higher return."

Holsten scours the business pages of local newspapers and doesn't see much difference among bank

rates. Nor does she see much improvement on rates until the spring. Indeed, she thinks they might go below 4% but won't consider putting her money into stocks. "I don't know much about it," says Holsten, "and I would feel very uneasy." She's also put off by the commissions she'd have to pay to a stockbroker. So for now, she'll keep her nest egg in her money-market account, "hoping this recession will lighten up." Until then, her worries and those of many other retirees will keep pressing.

By Gail DeGeorge in Miami



'When I saw the
interest rate being
lowered, I said it
would be a disaster'

HELGA HOLSTEN
A Florida retiree

One reason for this recession's longer-than-usual duration is the extraordinarily poor condition of the nation's balance sheet. It takes a while to restore crippled finances and bolster impaired incomes. The federal government's outstanding debt rose from 26% of gross domestic product in 1980 to just under 50% of GDP in 1991. Household debt, including mortgages, as a percentage of disposable personal income is running around 94%. That's a lot higher than its long-run historical average of just under 75%. And long-term corporate debt is at an all-time high (charts). "We've been on a debt binge, and it won't unwind overnight," says Lacy H. Hunt, chief economist at Carroll McEntee & McGinley Group Inc. Considering the economy's fragile state right now, Hunt and many other economists believe the Fed will cut rates even further in the months ahead. Another reason recovery isn't at hand is the delay the economy must suffer through before lower rates can influence buying and selling. Take Shoney's Inc., the Nashville-based restaurant chain. Three years ago, it borrowed \$728 million, including \$585 million from banks, to pay a special dividend to shareholders. Today, cash flow is improving, and profits are up. The company wants to boost its annual capital spending to the \$40 million to \$45 million range, up from this year's \$34 million. But its bank loan covenants limit capital spending to no more than \$34 million annually until the bank debt is repaid. "We're anxious to accelerate our capital spending, but in our case that won't come until 1993, when the loans are paid off and the covenants lifted," says Taylor H. Henry Jr., Shoney's chief financial officer.

HARP DROP. Eventually, if both long- and short-term interest rates trend lower, it's likely that the economic fundamentals for a rebound will fall into place: Refinancings are mounting, inflation is running at 3% or less, the money supply is growing, and the cost of capital for U.S. corporations is falling sharply. Lower financing costs mean companies can afford to spend more and wait longer for a payback from capital projects. For instance, Meditrust Management Inc., a Waltham (Mass.) health care real estate investment trust, plans nearly to double its investments in clinics and hospitals, to \$175 million. "As rates come down, more and more operators find it makes economic sense to raise funding and expand," says David F. Benson, president of Meditrust.

If he's right, bargain-basement rates for credit will slowly cure the economy of its '80s excesses—but it's going to take longer than anyone wants.

By Christopher Farrell, with Michael J. Mandel in New York, Gary McWilliams in Boston, and bureau reports



UNITED WE STAND: OTHER CARRIERS QUICKLY FOLLOWED THE LEADER IN HIKING TICKETS BY 2%

FASTEN YOUR SEATBELTS, IT'S GONNA BE A PRICIER FLIGHT

In the wake of an industry shakeout, a truce in the cutthroat fare wars

Promises, promises. For years, the airline industry has ushered in each New Year pledging to boost its anemic profits by raising air fares. But like a lifelong smoker unable to kick the habit, the industry quickly succumbed to price-cutting. Beset by ailing carriers desperate to raise cash, the industry has usually opened the year with fresh fare wars.

Until now, that is. On Christmas Eve, United Airlines Inc. announced that it would boost most U.S. domestic fares 2% on Jan. 3, a move quickly copied by other major carriers, including Delta, American, and Northwest. This increase swiftly followed an industrywide \$20 hike in the price of deeply discounted weekend fares, a change led by Continental Airlines Inc., once the industry's most notorious discounter.

LESS LEEWAY. That may be only the beginning. The most aggressive domestic price-cutters of yore, Pan Am, Midway, and Eastern, are now out of business, so industry executives expect fares to rise steadily throughout 1992. Peter M. Sontag, CEO

of travel agency USTravel Inc., expects the price of deeply discounted tickets to soar by up to 30% by the end of 1992. Airline executives are also beginning to scale back corporate discounts, which became the industry's worst-kept secret in 1991. The result: higher prices for almost all travel (table).

Full-fare ticket prices, says Sontag, are likely to rise only 3% in 1992, but they'll come complete with more onerous restrictions. Take business fares. As

part of its increase, United proposed eliminating the seven-day, unrestricted business-coach fare. Other carriers refused to follow suit, but once the recession ends and business travel picks up, industry executives expect price breaks for tickets bought only a week in advance to disappear.

Why the sudden resolve? With 1991's combined losses of \$3.9 billion, followed by an expected \$1.8 billion deficit in 1991, carriers feel they have little choice but to boost fares. "It's no more complicated than that," asserts Harry Leis, the vice-president for planning at Seattle-based Alaska Airlines Inc.

FULL PLANES? Consolidation should help make higher fares stick. With the demise of Midway and Pan Am in late 1991, says David H. Treitel, an executive vice-president at industry consultant Helgeson & Eichner Inc., domestic capacity declined 3.5%, bringing supply and demand nearer to equilibrium.

Undoubtedly, airlines are taking a risk by raising prices during a recession. Timothy Griffin, Continental's senior vice-president for scheduling and pricing, says the airline hasn't seen any decline in bookings since price increases took effect on Dec. 19. "There's no major resistance," he says. The real test should come in January, when the holiday travel period ends and business usually slows down.

Higher fares, though, could scare away already skittish fliers. John Petata, a regional textbook-sales manager in Palo Alto, Calif., for Houghton Mifflin Co., says he spent \$17,000 on business air travel in 1991. He was planning to scale back in 1992, and the fare increases will spur him on. "I won't be likely to make that quick trip to the East Coast," he says. Still, Griffin points out higher prices should more than make up for any loss in traffic.

Travelers need not despair completely. Nobody is predicting that deep-discount flights will go the way of most New Year's resolutions. And fare wars will still flare up. For example, Alaska Airlines has cut its half, to \$200, its round-trip fare between Seattle and Anchorage, in response to expanded service by upstart MarkAir Inc. But for the most part, look for at least a truce in airline efforts to lure passengers—and bludgeon each other—with cheap tickets.

By Kevin Kelly in Chicago, with Dori Jones Yang in Seattle

AIR FARES START CREEPING UP

What a round-trip seat on United will cost you

ROUTE	FARE PLAN	OLD FARE	NEW FARE
CHICAGO-SAN FRANCISCO	First class	\$2,088	\$2,190
CHICAGO-ORLANDO	7-day excursion	478	488
CHICAGO-NEW YORK	Full coach	838	854
MINNEAPOLIS-NEW YORK	21-day advance purchase excursion fare	358	365

DATA: UNITED AIR LINES INC.

Microsoft Excel 3.0

You can see the
difference between
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in a matter of
seconds.

BENCHMARKS

September 9, 1991

INFO
WORLD

Windows Spreadsheets

Microsoft Excel
Version 3.0

Lotus® 1-2-3® for Windows™
Version 1.0

CALCULATION (all times in seconds)

Arithmetic model

Recalc partial	<1	2.5
Recalc all	1.6	4.3
File load	6.9	10.5 - 12.2
File size (in bytes)	243,644	219,258

Financial model

Recalc all	11.4	34.9
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Scientific model

Recalc all	3.7	10.0
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CONSOLIDATION

Page-oriented model	5.0	<1
File-oriented model	<1	1.3

Tests performed on a COMPAQ DESKPRO 386/20e™ with 4 megabytes of RAM and 110-megabyte hard drive.
Times given as ranges reflect when cursor control was returned and when the recalculation was completed.

Microsoft Excel is over two times faster than 1-2-3 for Windows by virtually every measure.

Microsoft

AS IF MACY'S DIDN'T HAVE ENOUGH TO WORRY ABOUT

Federated, emerging from Chapter 11, will be a more formidable rival



BURDINE'S IN MIAMI: FEDERATED WILL CARRY A MUCH LIGHTER BURDEN OF DEBT

Forget Hollywood in 1992. Retailing is where the drama will be. This year's stars: two of the trade's fiercest competitors, R. H. Macy & Co. and Federated Department Stores Inc.

The award for most dramatic performance in a cliff-hanger is likely to go to Macy's. Plainly put, it's in severe financial distress. It reported a \$155.4 million loss for its November quarter atop a \$150 million loss for its fiscal year ended in August, and then, like most retailers, it slogged through a worse-than-expected holiday season.

FATTER MARGINS. The comeback award may go to—surprise—Federated. Lying crippled in bankruptcy since January, 1990, the 225-store combine of nine chains—Bloomingdale's, Rich's, Burdine's, and Bon Marché among others—expects to emerge from Chapter 11 as early as this February. When it does, its margins should improve dramatically, thanks to the erasure of \$5 billion in debt from its balance sheet.

Still, Federated can't be too gleeful about its advantage over Macy's. Specialty stores and discounters are putting up stiff competition against both chains. Relatively debt-free chains such as The Gap Inc. and The Limited have been eating away at department stores' market shares. The department stores also are

being hurt by Wal-Mart Stores Inc. and other discounters.

Yet to their investors and creditors, vendors and employees, the main event is Macy's vs. Federated. As in years past, they'll be battling for market share in the Northeast and Southeast. A newly invigorated Federated should prove a much stouter rival than in years past. For one thing, the company can look forward to something that, for now, Macy's can only dream about: proceeds from a stock offering.

As part of its reorganization, Federated will issue some 80 million shares to creditors. "If market conditions are fa-

vorable, we plan to do an additional [offer] sometime in the first 6 to 12 months" after emerging from bankruptcy, says James M. Zimmerman, president and chief operating officer of Federated & Allied Stores Corp., a Federated holding that will disappear in the reorganization. The IPO could bring in \$500 million to \$700 million, estimates Andrew J. Herenstein, a junk-bond analyst at Delaware Bay Co., a New York investment firm.

Now, take a look at Macy's, which is struggling under \$3.4 billion in debt left over from its 1986 leveraged buyout at its California expansion two years later. Cash flow shrank 53%, to \$72.3 million in the November quarter. Michael Cha, an analyst at J.P. Morgan & Co., expects the coming year's cash flow to dwindle to 6.7% of Macy's \$6.8 billion in sales (table). In fiscal 1989, that figure ran as high as 13.5%.

CASH PROBLEMS. The trend runs the other way at Federated. Its ratio of cash flow to sales, which fell to a historic low of 5.8% in 1990, should reach 8% in 1991, Herenstein estimates. Another way to compare the two rivals' prospects: Macy's this fiscal year must pay \$155 million in interest for every square foot of space it devotes to merchandise. At Federated, the figure is closer to \$7.50.

Down the road, Macy's will continue to have cash problems, even though lenders—a 40-bank syndicate led by Manufacturers Hanover Corp. and Barbers Trust Co.—eased terms on its \$500 million revolving-credit agreement. Starting in November, 1993, Macy's will have to pay cash interest on roughly \$491 million worth of zero-coupon bonds, adding an estimated \$105 million to its annual interest tab, says Evan Mann, a high-yield analyst at Dillon, Read & Co.

Then there's the \$400 million note Macy's owes Federated from its \$1.1 billion 1988 acquisition of Bullock's and Magnin & Co. To pay it down, Macy's will have to come up with \$176 million in cash in 1993 and \$224 million in 1994. Says Thomas P. Razukas, a bond analyst at Fitch Investors Service Inc., "Eventually, the banks are going to say 'We've done enough, you've got to go elsewhere.'"

If Federated can keep its costs in line and its same-store sales meet their 6% annual growth target for the next few years, then it should have the edge. Says Zimmerman: "Even in a difficult economy, we have an advantage over the competition because we've already been through turmoil, while others have problems they're only beginning to confront." Actually, Macy's has been in turmoil for years—and it won't end soon.

By Laura Zinn in New York

SO WHO'S THE WEAKLING NOW?

Estimates of key financial measures in fiscal 1992

R.H. MACY
YEAR ENDS AUGUST, 1992

FEDERATED STORES
YEAR ENDS FEBRUARY, 1993

Total interest expense per square foot of selling space

\$15.25

\$7.50

*Cash flow as a percentage of sales**

6.7%

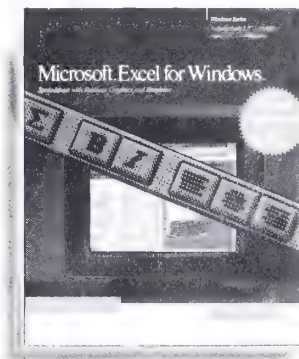
8.0%

* EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION, AND AMORTIZATION
DATA: J.P. MORGAN & CO., DELAWARE BAY CO., COMPANY REPORTS

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PC World, September 1991.



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Commentary/by Dean Foust

DON'T SHORTEN THE DEADLINE ON INVESTORS' LAWSUITS

Last summer, Corporate America heaved a collective sigh of relief. The Supreme Court in June drastically shortened the length of time private investors have to file securities-fraud suits. The court even applied its new standard retroactively to pending cases. But in its effort to forestall a tidal wave of litigation, the high court may have cut too deeply into some vital shareholder rights. Now, it's up to Congress to strike a new balance between wronged investors and companies beset by frivolous suits.

The court's goal was laudable: Impose uniformity on the disparate rulings by the lower courts on how long investors have to file suits. The justices chose a little-used federal standard that gives shareholders only one year from discovering fraud, but no more than three years from the deception, to file suit. That's less time than most courts had granted. In New York, for example, investors had up to seven years. The Supreme Court ruling forced lower-court judges to toss out \$700 million in pending private claims against junk-bond behemoth Drexel Burnham Lambert Inc. and others.

LETHAL INTENT? With motions pending to dismiss another \$4.6 billion in suits—including claims against junk-bond king Michael R. Milken and thrift executive Charles Keating—Congress scrambled before adjournment to approve a measure that reinstated cases filed before the high-court decision. But that's not enough. When lawmakers return, they should lengthen the statute of limitations beyond the Supreme Court's unreasonably short standard. The court "plunged a sword directly at the heart of victims of securities fraud," says Representative Edward J. Markey (D-Mass.). A better time frame: three years from discovery, but no more than five years after the fraudulent act, as proposed by Markey and Representative John D. Dingell (D-Mich.).

The time is needed because securities-fraud cases are often maddeningly complex. It takes time to discover that fraud occurred, let alone develop a

case. Even the Securities & Exchange Commission, with its subpoena powers, needed more than three years from the time the alleged violations took place until it began proceedings against Drexel and E. F. Hutton, the latter on check-kiting charges. And under the high court's standard, notes Harvard Law professor Arthur R. Miller, suits that produced \$600 million in settlements in the 1983 Washington Public Power Supply System scandal couldn't have been brought.



But the White House, conservative lawmakers, and business lobbyists worry that stretching the statute of limitations could fuel a litigation explosion. U.S. corporations complain that they already must mount a costly legal defense seemingly every time their stock price dips. Spurious litigation "has reached epidemic proportions in this country and is having massive, widespread, harmful effects," Philip A. Lacovara, general counsel for Morgan Stanley & Co., told Congress recently.

Sharing that belief, the White House

Congress should be wary of 'reforms' that would insulate executives and investment bankers from accountability

will agree to extend the filing period only if legislation curbs frivolous suits. Among the proposals: requiring some losers to pay the victor's legal expenses, and placing sharp restrictions on pretrial maneuvers, perhaps by limiting access to documents.

But Congress should be wary of "reforms" whose hidden intent would be to insulate executives, Wall Street investment bankers, and other professionals from accountability. Investors shouldn't be discouraged from pursuing valid claims for fear of having to cover defendants' mammoth legal tabs. Who would have sued Drexel, for instance, knowing that the brokerage was prepared to spend \$1 billion to defend charges that it manipulated the junk-bond market?

NO FISHING. The fact is, the number of private securities suits brought in federal court has declined 30% since 1985, according to the Administrative Office of U.S. Courts. The decline underlines the power that judges already have—and wield—to sanction lawyers who bring dubious suits just to extract a shakedown settlement. In November, for instance, a Boston federal appeals court threw out what the judges considered a "meretricious" shareholder suit claiming Digital Equipment Corp. gave inadequate warnings that its stock price might drop after the 1987 crash. The court ordered the plaintiff to pay double court costs plus DEC's legal fees. And federal judges appointed by Presidents Reagan and Bush already have issued a series of rulings that cut back on investors' ability to bring suits. They are not tolerating fishing expeditions by lawyers who want to rummage through a defendant's files for damaging evidence.

Unfortunately, the Supreme Court may now have created a catch-22: With less time to act, investors may feel compelled to bring suits before they've found the smoking gun. But then they run the risk of being sanctioned by the court for bringing a "frivolous" suit. Congress must save investors from having to walk such a tightrope.

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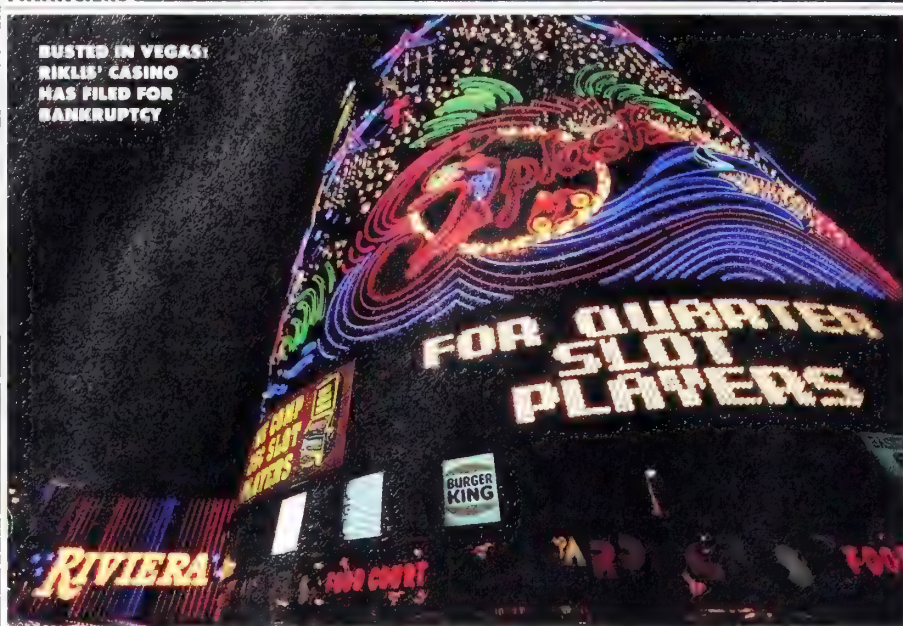
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FINANCIERS



'LET'S JUST SAY I'M NOT EATING ANY MILK AND HONEY'

A string of setbacks for dealmaker Riklis has creditors circling

Meshulam Riklis loves a good story. Among the Los Angeles financier's favorites, recalls a friend, is one about his days as a junior stock analyst at Piper, Jaffray & Hopwood in Minneapolis. When he called clients with recommendations, Riklis would tell half of them he expected a certain stock's price to rise, the other half it would fall. That way, Riklis would joke, "at least half the people you deal with think you're a genius."

Such chutzpah isn't Riklis' strong suit these days. His three-decade run of wheeling and dealing appears to be winding down. In late December alone, his \$1 billion empire took two hits: McCrory Corp., a chain of five-and-dimes operated by a Riklis holding company, announced it would close nearly one-quarter of its 1,100 stores. His Las Vegas casino, the Riviera Hotel, filed for bankruptcy protection after some of its creditors refused to accept a restructuring plan. Meanwhile, Riklis is still fighting a bondholder suit that charges he "removed hundreds of millions of dollars of cash" from E-II Holdings Inc., which he controlled until late 1990.

Riklis denies the charges.

But the drubbing is getting him down. "Let's just say that I'm not eating any milk and honey," he says. Although Riklis hotly denies it, the recent string of setbacks could force a dismantling of his collection of corporations.

Riklis started buying companies with borrowed cash back when Mike Milken was still in short pants. After winning control of office-equipment maker Rapid-American Corp. in 1955, Riklis bought such well-known brands as Botany 500, BVD underwear, and Playtex bras. His 1968 MBA thesis, *Expansion Through Financial Management*, spelled out a 1980s-style acquisition strategy: Assets are valuable only when they are strong enough to be borrowed against. Empires

are to be built on someone else's money.

When creditors pressed for repayment in the past, Riklis always managed to refinance the debt. But not this time. His most serious problem is McCrory Parent Corp., which is saddled with more than \$600 million in past-due debt. A group of creditors is trying to force McCrory Parent into involuntary bankruptcy. A related Riklis holding, McCrory Corp., operator of McCrory Stores, J. J. Newberry, and other smaller chains has lost more than \$245 million in the 33 months ended Oct. 31. Selling the inventory of the closed stores could raise \$30 million, Riklis says, and leave him with an 800-store chain pulling about \$1 billion in annual revenues.

HIS-AND-HER JETS. As if those troubles weren't enough, Riklis is also about to cede control of the Riviera to his creditors, who hold \$126 million in Riviera debt. According to the terms of the bankruptcy petition, Riklis will lease back the casino from them. The deal gives him an option to buy back the Riviera in 1995, but increased competition from flashy new hotel-casinos may make that a long shot. "I've already lost a lot," says Riklis.

Don't feel too bad for Riklis, though. Throughout his career, he has spun off profitable assets to his own private companies and limited partnerships. A Riklis partnership owns the 230-store Springfield Mall in northern Virginia. It's 90% leased—not bad in a recession. And his family holding company owns American Recreation Corp., a sporting-goods company he says will earn \$7 million this year. And Riklis and his wife, singer Patti Zadora, can still afford to wing around the country in his-and-her Lear jets and own two multimillion-dollar Beverly Hills houses.

But the financial and legal toll continues to pile up. One big headache: a class action filed against E-II, which Riklis purchased in 1988. The suit charges that Riklis siphoned funds out of the manufacturing conglomerate by selling pieces of his other companies to E-II. The suit also alleges that Riklis coerced E-II into declaring \$925 million "dividend" that helped him pay \$950 million for E-II in the first place.

Riklis, who left E-II in late 1990, denies the charges. But he sounds weary. "I'm 68," he says. "Who needs all of that stuff?" The dealmaker famous for his footwork seems to be running out of steps.

By Ronald Grover in Los Angeles, with Joseph Weber in Philadelphia and Peter Krown in York, Pa.

THE TROUBLED EMPIRE OF MESHULAM RIKLIS

McCRORY PARENT CORP.

This troubled holding company is in default on \$610 million of debt, hasn't paid interest since Feb. 1, and is besieged by creditors

RIVIERA HOTEL

Unable to reach restructuring agreement with creditors after missing two payments on \$126 million in debt. Filed for Chapter 11 on Dec. 18

RIKLIS FAMILY CORP.

Owens real estate, a large suburban Washington shopping mall, and American Recreation, a sports-equipment maker that Riklis claims will earn \$7 million this year on \$100 million in revenues

DATA: COMPANY REPORTS, BW

EDITED BY ROBERT BARKER

A SHORTAGE OF BASIC SKILLS

To hear management tell it, many people entering the labor force simply don't have what it takes. Personnel consultant Towers Perrin, in a survey of 360 companies for the National Association of Manufacturers, learned that the average manufacturer screens six applicants for every one hired. The most oft-cited reasons for rejection:

WILL ADAPT POORLY TO WORK ENVIRONMENT

INADEQUATE READING AND WRITING SKILLS

NO WORK EXPERIENCE

DEFICIENT CALCULATION SKILLS

POOR VERBAL SKILLS

FAILED MEDICAL OR DRUG TEST

0 20 40 60
▶ PERCENT

NATA, NATIONAL ASSOCIATION OF MANUFACTURERS, TOWERS PERRIN

A ONE-TWO PUNCH AT AIDS?

▶ A popular anti-herpes drug may extend the lives of AIDS victims. That's the early finding of a study involving 300 AIDS patients in Britain, Germany, and Australia. The study was designed to see if acyclovir, a herpes drug marketed as Zovirax, could help relieve a painful form of herpes, cytomegalovirus, common in AIDS patients. But researchers noted something else. Most of the patients also were taking AZT, the common anti-AIDS drug. Just 10% of the patients taking a combination of AZT and acyclovir died over a one-year period, vs. 20% of those taking AZT and a placebo. Dr. Paul Griffiths, a London virologist who co-headed the study, cautions that the full results haven't been analyzed. Moreover, the study's findings came as a surprise to some U.S. researchers who so far have not found acyclovir to be useful in

treating HIV. Nonetheless, the stock of Wellcome, the British-based company that makes both drugs, jumped 10% on the news.

POSNER DUMPS A PAIR OF PROBLEMS

▶ Victor Posner has an effective way of dealing with opposition inside his boardroom: He votes it out. At the Dec. 27 annual meeting of DWG, which controls Arby's and RC Cola, Posner took aim at two longtime directors, William Pallot and Thomas Prendergast. Posner, DWG's chairman, was irked that the two had sided with three court-appointed directors in a report that criticized him. Posner voted his 46.3% stake for two replacements, nephew Martin Posner and the Reverend Patrick O'Neill. The meeting was closed to reporters, but some people who attended said Posner was blasted for, among other things, paying himself and members of his family big salaries.

GRAY DAYS AT CRAY

▶ Has Seymour Cray hit the end of the road? The future for his Cray Computer and his superadvanced Cray-3 supercomputer looks bleaker than ever. At \$30 million a copy, the Cray-3 is designed

ART ISN'T USUALLY SO CONCRETE

To the poet, even the detritus of everyday life is the stuff of art. Take the collages by Russian poet Andrei Voznesensky now on display at the Sperone Westwater gallery in New York. Three of them deal with the Keystone Koup that led to the disintegration of the Soviet Union. To make them, Voznesensky gathered asphalt torn loose by the tanks that had surrounded the Russian Parliament building in the early hours of the attempted overthrow. "The pavement itself is history," says the poet, "and I didn't want it to disappear."

Other pieces in the show concern daily life in Moscow. One collage even refers to Russia's chaotic economy. In that piece, a park bench is surrounded by falling leaves. Look more closely and you'll see that those aren't just any leaves—they're formed from scraps of the ever-falling ruble. "Your readers should appreciate that," confides the poet.



to handle 16 billion calculations a second. Trouble is, Cray Computer's only customer, Lawrence Livermore National Laboratory, on Dec. 23 canceled its order, blaming delays. The company insists it still can get its first full-blown, 16-processor machine out the door by October. This year, bidding will open for supercomputer sales to several government operations, including the NASA/Ames Research Center and the National Oceanic & Atmospheric Administration. Cray Computer will need working hardware just to compete in what could be Seymour Cray's last stand.

ZALE FIGHTS TO STAY OUT OF HOCK

▶ Stung by poor Christmas sales, mounting losses, and heavy debt, Zale has resolved to remake itself in 1992. It's shutting 400 of its 2,000 retail jewelry stores and slimming down its headquarters. The world's largest retail jewelry chain also has halted payments to banks, bondholders, and suppliers. The move could force Zale into bankruptcy, as at least one bondholder has threatened to file an involuntary petition. Zale already is late on a \$52 million interest payment.

AMERICAN AIRLINES SWINGS THE AX

▶ With expenses rising and losses mounting, American Airlines plans to cut about 1,250 U.S. jobs in early February. It now employs 97,000 worldwide. Parent AMR, estimated to have lost more than \$215 million in 1991, recently said it would slash \$8 billion from capital spending over the next four years. The cuts will hit mostly gate agents, baggage handlers, and other ground workers.





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THE NEW COMMERCE CHIEF ISN'T EXACTLY A TRADE HAWK

He goes to a suburban shopping mall to buy a few pairs of socks. He strides into a working-class bar in Beeville, Tex., for a beer and some small-town gossip. Just before a 12-day Asian tour, he starts spouting the get-tough rhetoric of Democratic trade hawks. No question, George Bush has waded hip-deep into Presidential election symbolism.

Another case in point: Bush's appointment of business consultant Barbara H. Franklin as his new Commerce Secretary. At the Dec. 26 announcement, the President borrowed the macho language of Democratic Japan critics, calling Franklin a "determined advocate for free and fair trade." He went on to describe Franklin—a Republican stalwart known more for her ability to pry campaign dollars out of GOP fat cats than for devotion to aggressive market-opening measures—as an advocate for a "level playing field" with Japan and other Asian nations.

The tough talk sent shivers through Tokyo (page 44). And it has raised the possibility that staunch free-trader Bush, menaced by the stagnating economy, might be taking an election-year lurch toward protectionism. But despite the best efforts of White House pinmeisters, there's a gulf between reality and the latest burst of Presidential rhetoric.

ONCE BURNED. That's because Franklin, 51, a well-regarded Washington management consultant, is hardly the forceful, foot-in-the door advocate for U.S. exporters that Bush described. Franklin was tapped in part because of her three terms as a member of the White House Advisory Committee on Trade Policy & Negotiations. Yet her colleagues say she gave no signs of espousing a hawkish line. Says Paul E. Lego, chairman and chief executive of Westinghouse Electric Corp., where Franklin is a director: "She's not just a free-trader. She's a strong free-trader."

Given Franklin's blue-chip background, she is not about to abandon her free-market beliefs. She sits on the boards of

seven major U.S. corporations and travels in the same moderate GOP circles where Bush feels most comfortable. Yet at least once Franklin has been burned by her benign view of Japan. When she graduated from Harvard with an MBA, Franklin went to Singer Co. as a market research analyst just as the Japanese began a determined push to grab the U.S. sewing-machine market. Within two years, she recalls, Japan had won a 60% share.

Despite that episode, Franklin is expected to continue to pursue the main thrust of the Administration's trade strategy, which focuses on plodding multilateral trade negotiations, not specific market-access measures. Thanks to her political savvy and Washington connections, Franklin will at least start the job with an edge over her predecessor, Texas oilman Robert A. Mosbacher. Always uncomfortable in Washington's treacherous bureaucracy, Mosbacher has been tapped to help direct Bush's reelection campaign.

While Bush steps up his fair-trade rhetoric, Franklin will likely stay the course at Commerce. White House aides say that, rather than envisioning any crowbar-wielding role for the new Commerce chief, they mostly see Franklin as a traveling cheerleader on the GOP circuit. "We expect her to be a real activist, promoting business in speeches around the country," says a Bush political strategist.

But since Franklin seems unlikely to use a bare-knuckle approach, the Administration is still vulnerable to Democratic attacks. She may dazzle GOP audiences on the stump with her odes to American knowhow. But with Democrats tapping into a deep vein of resentment over the issue of Japan's trade practices, somewhere along the line voters may notice that while the President has decided to come on like John Wayne on trade, his top trade officials are still talking laissez-faire.

By Paul Magnusson and Douglas Harbrecht



FRANKLIN: "A STRONG FREE-TRADER"

CAPITAL WRAPUP

LAWYERS

The Federal Deposit Insurance Corp. has come under fire on Capitol Hill for the millions it has spent on outside lawyers. But what has received less attention is the surprising bang the FDIC is getting for those bucks. During 1990 and the first three quarters of 1991, the agency spent \$150 million for lawyers who sued officers, directors, and advisers of failed financial institutions. The cases raked in \$639 million in awards. Even so, the congressional sniping and the angry letters demanding that the FDIC answer some tough questions about the legal bills haven't abated. "We want to make sure some-

one is breathing down their necks," declares one senior Democratic House aide, "because they're not breathing down the necks of the lawyers."

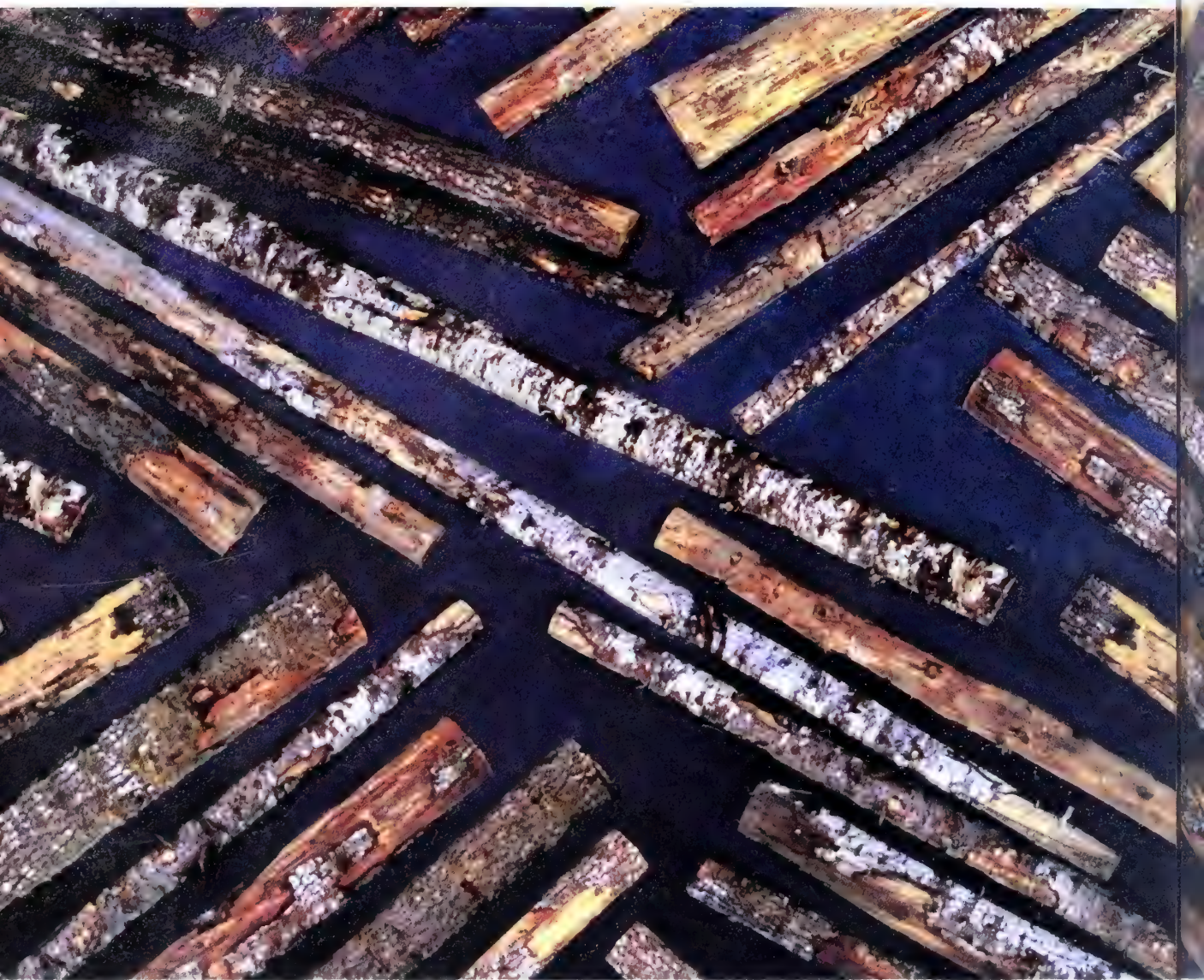
PENSIONS

Business groups want the Treasury to rethink pension rules slated to take effect on Jan. 1. The complex rules are supposed to make sure highly paid employees don't get a disproportionate share of benefits. But employers gripe that to prevent discrimination against lower-paid workers, companies would have to alter their plans constantly as employees come and go. Some employers would drop benefits altogether, business groups warn.

CONGRESS

If voters want to throw the bums off Capitol Hill, it looks as though they'll have to do the job themselves. Political analysts had expected redistricting and a wave of retirements fostered by new campaign-finance rules to produce massive turnover in the House. But so far, only 20 House members have announced plans to step down when their current terms end. Meanwhile, state legislatures are, by and large, doing their usual good job of drawing new district lines that protect incumbents. Only about a dozen members can expect to face another incumbent in a redrawn district.

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HOW MUCH CAN BUSH BRING HOME?

The strains in the U.S.-Japanese relationship will tell at the summit

The Japanese cherish their week-long New Year's break more than any other holiday. It's a time for family visits, dressing up in kimonos, eating such traditional delicacies as herring roe and rice-cake soup, and making the rounds of temples and shrines. But many officials are grimly foregoing their holiday as they anxiously prepare for one of the most difficult U.S.-Japan summits in years.

When George Bush touches down in Osaka on Jan. 7 with 21 CEOs of major U.S. corporations, including Detroit's Big Three, he has one purpose in mind—reelection. After hastily canceling an Asian trip last November, Bush has recast his first official visit to Tokyo as more of a trade mission, to suit the prevailing political winds at home. No longer do you hear him uttering psalms to free trade and the global partnership between the U.S. and Japan. "We are going to try to do our best to be sure that the trade is fair and continuing to get fairer," says the new Bush.

'REPULSION.' And that means wringing as many economic concessions as he can from Prime Minister Kiichi Miyazawa's government and Japan's private sector. But the strategy could backfire if the Japanese, angered that Bush is trying to score political points at their expense, dig in. "As for the U.S. relationship with Japan, the trip will clearly be a minus," editorialized the business daily *Nihon Keizai*. "We suspect that a majority of the Japanese view it with repulsion." Now, the fear is growing in both countries that Bush has created unachievable expectations that doom the summit to failure. That could cost Bush dearly in the political sweepstakes back home.

Bush has put the auto issue on the front burner. With good reason. Nearly three-fourths of 1991's bal-

looning \$43 billion trade deficit with Japan stems from autos and auto parts (chart). While Japan exported 2.2 million vehicles to the U.S. last year, it bought a paltry 32,000 American autos, including those made in Japanese-owned plants. This comes at a time when General Motors Corp. alone has decided to lay off some 74,000 workers. "General Motors is like the Stars and Stripes to the U.S.," acknowledges Miyazawa in the Japanese press. "I can imagine how shocking it might be when that company is beaten by Japanese cars."

NO GUARANTEES. But Bush needs more than empathy. With U.S. auto executives leaning over his shoulder at high-level meetings, he'll find it hard to get away with rhetoric alone. "He can't just take all those major industrialists over there and come back with nothing," says John G. Onto, director of Georgetown University's Center for International Business & Trade. He also runs the risk that Japan critic Lee Iacocca might sound off—and further offend Tokyo.

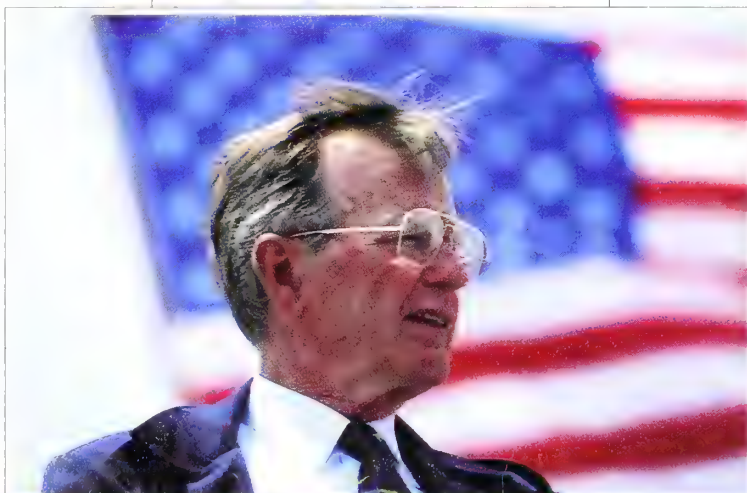
What could make the trip a stalemate for Bush is that Tokyo is less inclined than ever to knuckle under to U.S. grandstanding. "The mood in Japan is not one where the leaders are saying: 'We're going to do a lot to help Ameri-

ca,'" says Gerald L. Curtis, director of Columbia University's Center for East Asian Studies. "They feel the problem resides in the U.S."

So it's unlikely the Japanese will do any more than make token gestures of autos. "If we're asked to guarantee an increase of imported cars from the U.S. we can't," says Noboru Hatakeyama, vice-minister for international affairs at the Ministry of International Trade & Industry. "This is not a command economy." He also slams the door on U.S. demands for an easing of emission standards. But the Japanese government has indicated it will relax certain other standards, such as requiring that brakes be tested in Japan on each car.

It will be only slightly easier to increase sales of U.S. auto parts in Japan. During the past couple of months, at MITI's behest, Japan's carmakers have announced plans to almost double their purchases of U.S. parts, to \$16.3 billion by the fiscal year ending in March, 1995. But this will include parts made by Japanese suppliers in the U.S.

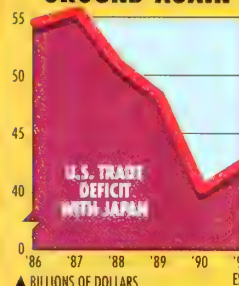
Japanese auto industry



A STALEMATE COULD HURT BUSH IN NOVEMBER



THE U.S. IS LOSING GROUND AGAIN



ON AUTOS,
IT'S UNLIKELY THAT
THE JAPANESE WILL
MAKE MORE THAN
TOKEN GESTURES

Bush will get mixed reviews in his visits to three other countries in the region. In Sydney, his first stop, Bush is likely to face criticism over exporting subsidized U.S. wheat. Then in Singapore, he'll discuss offers to open new military bases, now that the U.S. will be closing its facilities at Subic Bay in the Philippines. In Seoul, he will press for further liberalization of the Korean market, particularly in telecommunications, agriculture, and finance.

Overall, Bush will be seeking to shore up relations in a stable region that he has taken for granted. While he has devoted attention to such hot spots as the former Soviet Union and the Middle East,

Asian powerhouses have been booming, with annual growth rates as high as 8%. "Only 5 or 10 years ago it was said that if the U.S. sneezed, Asia would catch pneumonia," says Burton Levin, former U.S. consul general in Hong Kong and now director of the Asia Society's Hong Kong Center. "Now the U.S. has pneumonia and these countries are hardly sneezing."

But the key test is Japan, the final stop. With the emphasis on opening up markets, the President will pay visits to a Toys 'R' Us store in Nara as well as the Eastman Kodak Research Center in Yokohama for a demonstration of high-definition television. And there are plans for Detroit's Big Three and Tokyo's Top Five—Toyota, Nissan, Honda, Mitsubishi, and Mazda—to hold an hour-long meeting that Tokyo sources say will be long on symbolism and short on substance.

But even if Bush returns clutching a passel of purchasing orders from Tokyo, the victory would be only fleeting. Unless the U.S. economy picks up, no amount of trade concessions by Japanese leaders will make up for the rising jobless rate at home. And upon his return, the Democrats are certain to point that out.

By Robert Neff in Tokyo, with Paul Magnusson and Douglas Harbrecht in Washington

sources also say MITI is pressuring them to lower their 10-year-old "voluntary restraint" ceiling on exports to the U.S. But that could be of little value since exports are nowhere near the ceiling of .3 million. For the fiscal year ending in March, the Japanese expect to ship 1.7 million cars to the U.S. Besides, Japanese Deputy Foreign Minister Koji Watanabe insists that the Bush Administration has made no such requests.

WATERED DOWN. Despite Miyazawa's efforts to win concessions from Japan's armakers, there's reason to doubt he'll have the clout to follow through on his pledges. He is off to a disappointing start as Prime Minister. Miyazawa, for example, failed to win Diet approval allowing Japan's Self-Defense Forces to take part in U.N.-sanctioned peacekeeping operations, and he was unable to push through a new tax to pay for Japanese international contributions.

Even if Miyazawa had a better track record, the U.S. has ruefully learned over the years that promises from Japanese leaders are one thing and delivery another. To compensate for the likely modest breakthrough in cars, Japan appears ready to make other concessions, including a pledge to help fund America's proposed \$8.2 billion Superconducting Super Collider, which many Japanese experts disdain. Another gift to Bush could be better market access for

imported paper, glass, and computers.

For Bush, the trick will be to make small concessions look like a watershed in U.S.-Japanese relations. Summiters have a way of putting a positive spin on the grimmest of meetings. A U.S. President visiting Japan's beloved ancient capital of Kyoto, and perhaps even playing tennis with the Emperor in Tokyo, will surely score a few points with the Japanese public. And a planned Tokyo Declaration will loftily proclaim a new era of cooperation between two countries that need fresh reasons for their alliance.

But it's a second document, tentatively dubbed the Action Program, that will draw the closest attention. It will most likely include pledges by Bush and Miyazawa to work together on such global issues as the environment, arms control, AIDS, illegal drugs, and refugee relief. Japan will probably also agree to chair the economic session of the third round of Middle East peace talks in Moscow in late January. And the document will reassert the importance of continuing the mutual security treaty.

VICTORIES. In the end, what's most important to Bush is the appearance of having accomplished something. "This is not a trip for the Asians," says Ronald A. Morse, president of the consulting firm Annapolis International. "It's a visit for the media back home."

EUROPE



DEPENDENT ON SATELLITES AND CABLE, MAC WOULD REACH FEWER SETS THAN DIGITAL SYSTEMS

HDTV: EUROPE MAY ALREADY BE AN ALSO-RAN

With the EC's MAC standard in flames, overseas alliances are likely

The crafty scheme was supposed to be a stunning show of what a little coordination—and \$1.2 billion in European Community research funds—could achieve. To head off threatened Japanese domination of high-definition TV, Europe's consumer electronics kingpins Thomson and Philips Electronics whipped up a rival system, dubbed MAC, for transmitting razor-sharp HDTV pictures via satellites. The EC quickly declared MAC as its standard, and Europe was all set to hold its own against the Japanese. That was five years ago.

Today, Europe's grand plan for HDTV is suddenly fizzling. At stake is no less than most of Europe's \$42 billion consumer electronics market—and a good chunk of its semiconductor and other component businesses. Any setback would further dim Europe's hopes of going head-to-head with the U.S. and Japan as a high-technology powerhouse. "If Europe resigns all ambitions in this field, it's the beginning of the end," worries Jean-Philippe Lecat, an official at Thomson Consumer Electronics in Paris.

NO CLEARER. Europe's HDTV strategy just couldn't be enforced. Introduced in 1991, the first generation of MAC TVs has ordinary picture quality but snazzy, cinema-like screens. They were to soften up consumers for full-blown HDTVs later in

the decade. But even the most zealous EC industrial-policy makers didn't count on the level of resistance from obstinate satellite broadcasters even as technological advances threatened to make MAC obsolete. On Dec. 19, the EC threw in the towel on the controversial MAC standard. "MAC is a dead duck," declares Dermot Nolan, a media adviser at Coopers & Lybrand Deloitte in London.

In a last-ditch bid to save MAC, EC Technology Commissioner Filippo Pandolfi hopes to wrangle \$1.3 billion from the EC by next spring. MAC's biggest opposition has come from Rupert Murdoch's British Sky Broadcasting Ltd. and other fledgling satellite TV companies. They have balked at spending huge amounts to switch their programming over to the MAC standard. Pandolfi wants to use EC money to subsidize program conversion.

But the effort has little chance. The

'Europe has to make sure it has something left to bring to the table,' says a Thomson official

spending requires approval from all 12 EC members, and many are increasingly wary of throwing good money after bad. That's especially true in light of rapid U.S. progress in digital transmission technology. This more advanced system is capable of reaching the majority of Europe's 133 million homes that receive TV by terrestrial signals. MAC, which can be transmitted only via satellites and cable, would reach a much smaller audience. "There's no point binding ourselves to one system when a better one will come along," says British Corporate Affairs Minister John Redwood.

GLOBAL FACTS. If the subsidy route doesn't work, Europe's options then become far more painful. Thomson and Philips have gained valuable digital experience as part of a consortium competing against AT&T, Zenith, General Instrument, and Massachusetts Institute of Technology on a digital standard for the U.S. market. The U.S. will make its choice in 1993. That research, or a half-dozen other European digital projects, could form the basis for a future European standard. But Thomson and Philips, desperate to recoup some of the nearly \$2 billion already plowed into MAC research, wouldn't reap revenues for years. As another possibility, Philips and German broadcasters are working hard to adapt the current European terrestrial broadcast standard to carry wide-format pictures. But the technology won't be ready before 1995.

The gloomy European picture is hardly cause for celebration abroad. Japan's own Hi-Vision system, stuck with old technology similar to MAC, risks being swamped by digital advances, too. Nor will America's success in digital win back much of its lost TV-manufacturing business. The standard picked by the U.S. will be quickly licensed by Thomson and Philips, which together control a third of the U.S. market, as well as by Japanese rivals who have a hammerlock on screen, video-recording, and other critical HDTV technologies.

The upshot is likely to be a series of alliances as each of the three trade blocs neutralizes the others' advantages. Already, Texas Instruments has joined forces with Sony, Fujitsu, and Hitachi to develop HDTV chips. And the French and Japanese governments recently agreed to develop technology that converts each side's HDTV programs to run over the other's system. As the bargaining heats up, "Europe has to make sure it has something left to bring to the table," says Thomson's Lecat. Unfortunately, Europe's stack of chips seems to dwindle with every passing day.

By Jonathan B. Levine in Paris, with Neil Gross in Tokyo

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HOW LONG CAN YELTSIN HOLD IT ALL TOGETHER?

In a stunning bloodless coup, the new Commonwealth of Independent States dealt the final blow to the Soviet Union's central government and prompted Mikhail Gorbachev's resignation on Christmas day. But even as history was being made, jaded Moscovites were already betting that the new confederation won't last beyond the first day of spring.

Indeed, the new confederation faces deep, if not insurmountable, problems. Chief among them will be reconciling the disparate nationalities and varying economic clout of its 11 members. The commonwealth will inevitably be dominated by Russia, which has half the former superpower's people and most of its resources and industrial base. But other republics, especially Ukraine, are deeply suspicious of Russian intentions—for good reason. For nearly two centuries, most were part of a Russian empire held together at gunpoint by either czars or Communists. Now, only the flimsy glue of the commonwealth binds them. "I give the commonwealth half a year, in the best case," says Sergey A. Vasiliev, a member of Yeltsin's economic team.

Many analysts think the remnants of the former Soviet Union will eventually realign themselves in more logical economic and political patterns. Byelorussia may find a natural ally in Poland. Central Asian republics could be drawn toward successful Islamic models such as Turkey. Further east, Kazakhstan has even asked Moscow's erstwhile archenemy, China, for economic advice. What's more, Russia itself could be torn apart if ethnic regions such as Tatarstan, or oil-rich parts of Western Siberia, demand independence.

Russia may soon have little reason to cater to its neighbors. "The moment Russia moves to world-market prices, the economic incentives for some kind of cooperation will decline," says Jan Vanous of PlanEcon Inc., a Washington consulting firm. But if Russia goes it alone, then the rest of the world will have to cope with a grab bag of unpredictable little countries—some of them with nuclear weapons and huge stockpiles of tanks and artillery. And if the commonwealth breaks up, the agreement for a unified command of nuclear weapons reached in Minsk on Dec. 30 could be in jeopardy.

THIN VENEER. If the commonwealth does succeed, it could be a useful vehicle for smoothing economic reform. The 11 members all share a common history of central planning, and their close cooperation would make the change to a market economy less painful.

The key to its chances is whether Yeltsin can overcome other republics' suspicions of Russia and whether he can improve living standards quickly. For reforms to forge ahead, he has to persuade fellow leaders to go along with a set of coordinated measures, such as synchronized price rises, mobility of labor, a free-trade system, and a unified monetary policy. But his haste in seizing control of the former Soviet

apparatus and his blunt manner already seem to be destroying the thin veneer of trust.

A major test of Yeltsin's clout will come soon, after he frees most prices in Russia in an effort to fill up empty stores. Ukraine and Byelorussia had planned simultaneous price hikes. But Ukrainian officials claim they haven't received enough rubles from Russia, which now controls all printing of money, to handle demand once prices are liberalized. Even so, Byelorussia and Ukraine eventually are expected to follow the price hikes. Most Central Asian members are loath to increase prices, saying their people are too poor.

MINTING IT. As Yeltsin pushes on, he could force others into faster reforms. "If they don't follow the Russian example," predicts Gabriel Schoenfeld of the Center for Strategic & International Studies in Washington, "they'll be in serious trouble." But Yeltsin's move could also trigger a backlash of bans on exports to Russia, to keep its prices from sucking in other republics' goods, hastening the commonwealth's demise.

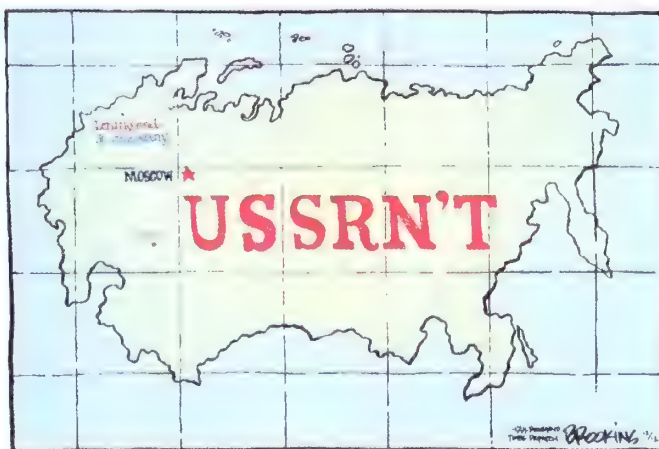
Pricing is not the only potential sticking point. The commonwealth plan to adopt a single currency, administered by a

Federal Reserve-style central-bank system, could hit some rough weather. In any new central-bank setup, Russia insists that voting power on monetary policy reflect its larger economic clout. By contrast, most other republics want a one-state, one-vote system. Most worrying, Ukraine wants its own independent central bank and has refused to abandon plans to introduce its own currency, the *grivna*, by midsummer. If other republics introduce new currencies, billions of nearly worthless rubles could flow to Russia, exacerbating hyperinflation—which is now pegged at 5% a week.

Adding to the tensions will be the hundreds of thousands of jobs lost as market reforms shut down obsolete factories. In theory, workers would be able to migrate freely within the commonwealth, pursuing jobs. But in reality, migrations are likely to be hobbled by severe housing shortages and intense racial prejudice. Desirable Russian cities such as Moscow and St. Petersburg, for example, have no intention of giving up the *propiska* system, which limits residency. If migrants from poorer republics manage to penetrate these cities, they may get a chilly if not violent reception from residents, touching off more nationalist strife. But if the new commonwealth restricts free movement, it will risk sanctions from Western countries on human-rights grounds.

While the West would prefer a viable commonwealth to deal with on nuclear and diplomatic matters, the best it may be able to get is a short-lived transitional arrangement. But if it does hang together, the payoffs to the people of the former Soviet Union will be considerable.

By Deborah Stead in Moscow, Peter Galuszka in New York, and Amy Borrus in Washington



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 **CHEMICAL**

BY GARY WEISS

IT'S GETTING COZIER UNDER THIS MUNI SECURITY BLANKET

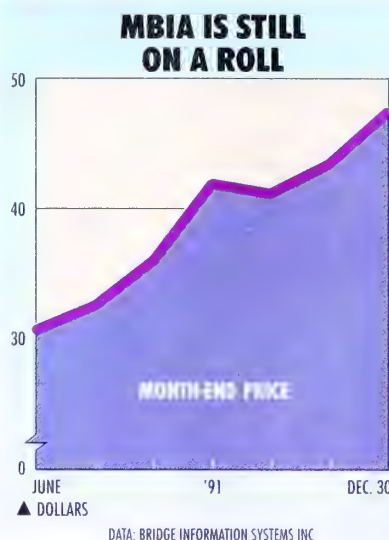
With the economy reeling, federal aid reduced, and costs still rising, state and local governments have rarely faced quite so much malaise. An odd time to buy into a municipal bond insurer? Not in the view of New York money manager A.R. Schmeidler. Despite the distress being suffered by localities everywhere, Schmeidler has been buying the shares of the top muni insurer, MBIA, the parent of Municipal Bond Investors Assurance. "It's an earnings story and an interest rate story," says Schmeidler analyst Stuart Crane.

Of all the factors that influence MBIA's earnings—which have gained steadily since the firm was founded five years ago—none is more crucial than investor nervousness about local government finance. Schmeidler is hardly betting on a revival of municipal fortunes. On the contrary, Crane expects that localities will be under even greater pressure to insure their issues to lure buyers.

MBIA and other insurers provide an unconditional guarantee of payment, thereby soothing the worries of investors—the all-important retail trade in particular—and reducing borrowing costs. Some 31% of all new muni issues are insured, and MBIA is the largest company that provides this security blanket, with about 36% of the insured-muni market.

EARNINGS BOOST. That solid market share puts MBIA in an ideal position to savor the fruits of the reduction in interest rates brought about by the Fed's recent cut in the discount rate. Municipalities are expected to latch on to lower rates by calling in their bonds and refinancing at the new low rates—a process that will give MBIA's earnings a boost. The insurance premiums are paid up front, but they are put into a reserve by MBIA and moved into earnings over the life of the bond issue. When a bond is redeemed before maturity, the entire amount remaining in the reserve is unloaded into earnings.

Bond redemptions are running at about twice the rate of a year ago and now comprise about 7% of the firm's earnings. Crane estimates that the earnings contribution from bond redemptions should double again in the



year ahead, growing to 15% as rates decline and redemptions grow. Crane expects 1992 earnings to weigh in at \$4.25 a share, vs. \$3.70 or so for 1991. The stock now fetches about \$47 a share, and a price-earnings multiple of 15 would send the shares climbing to \$60 over the coming year.

IS LOTUS IN A BETTER POSITION?

Lotus Development has had more than its share of troubles during the past year. The Cambridge (Mass.) company is a leading manufacturer of personal-computer software, notably the best-selling Lotus 1-2-3 spreadsheet, but its franchise has come under a sustained attack from Microsoft and Borland International. Lotus' share of the spreadsheet market is on the wane, and investors have taken the hint: Share prices, which reached as high as \$40 in August, have declined almost 50% since then, and the Street remains gloomy.

But those worries don't faze New York-based money manager Mark Tinker, who runs U.S. equity portfolios for Chase Manhattan's private banking group. Tinker is convinced that Lotus is on the comeback trail, and he is snapping up shares at what he believes are bargain prices. He notes that the company is cutting costs dramatically, recently announcing a layoff of 10% of its employees. Lotus is diversifying into word processing and local-area network software, and also is launching variations on its spreadsheet software by introducing products that can be used on the Apple Macin-

tosh and PCs that employ Microsoft's Windows software. "We feel that market share has stabilized and that money flow has turned positive," says Tinker.

Tinker believes that the company's shares, currently trading at about 24, are significantly undervalued because of the potential for earnings growth. He expects that profits, which are expected to reach about \$1.50 a share in 1991, should climb to \$2.30 this year. He feels the company's stock should regain the ground that it lost this year—and then some.

TAKE MY HEALTH PLAN—PLEASE

One of the hottest trends in health care nowadays is the "carve-out." That has nothing necessarily to do with surgery, but rather with subcontracting. "They go to the employer and say: 'Give me your employee mental health plan, and we'll manage it,'" says C. Beth Cotner, who runs the Kemper Summit fund. Cotner has been accumulating the shares of one such "carve-out" company, Value Health in Avon, Conn.

The company's largest client is the state of New York. The state recently awarded its mental health and substance-abuse services contract for state employees to Value Health's subsidiary, American PsychManagement, which will work as a subcontractor to Metropolitan Life Insurance. Value Health also manages mental health plans, prescription drug plans, and podiatric services for such big-name outfits as Southland, NCNB, Monsanto, and TRW. The company will take on 19 new mental-health accounts during 1992.

Value Health went public only this past April. It recorded just \$5.2 million in earnings from \$107 million in revenues for the first nine months of the year. But despite its relatively small size, it serves a total of 17 million employees.

Value Health stock has risen over 50% in its short life span and is currently selling at about 27, which is almost 50 times projected 1991 earnings of 59¢ a share. However, Cotner predicts that the company's earnings should rise to 78¢ a share in 1992 and \$1.08 in 1993. If those numbers are anywhere near the mark, the company's price-earnings multiple should remain at least as lofty—and its share price can be counted on to rise in tandem with its earnings.

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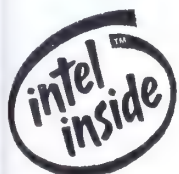
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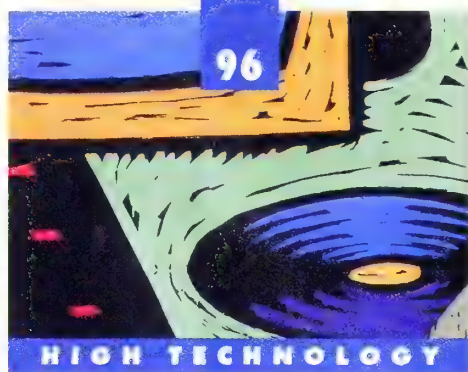
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FINANCE

OUTLOOK



MORE PAIN, THEN REAL GAINS

ECONOMISTS SAY THE DOWNTURN ISN'T OVER—BUT IT WILL BE BY SUMMER

If 1992 is opening with a dirge, it could end with a jig. As the year begins, many of the key economic indicators are pointing down. Employment plunged by 241,000 in November, wiping out all the gains of last summer and fall. Industrial output fell as well. And General Motors Corp. and IBM, to name just two, said they'll eliminate 90,000 more jobs, many of them in 1992. "We're back in the doldrums," says Charles A. Corry, chairman of USX Corp.

Or worse. By most estimates, the U.S. economy contracted in the fourth quarter of 1991. Consumers, hammered hard by job losses, big debts, and rising taxes, had little discretionary money to spend. Most industries were buffeted by the triple whammy of slowing markets abroad, weak demand at home, and intense competitive pressures. And the public sector was paralyzed by enormous budget deficits.

Many economists now see negative growth continuing through early 1992. The latest forecast by Merrill Lynch & Co., for example, predicts that the economy will shrink at a 1% annual rate in the first quarter before turning up, at a modest rate, in the second quarter. If that's right, the recovery of last summer and early fall will turn out to be a mirage, making

this the longest economic downturn since the 1930s. "It's going to be a very unpleasant next couple of months," says Richard Hoey, chief economist at Dreyfus Corp.

'PERVASIVE STAGNATION.' But the economy may be dancing to a cheerier tune by summer. On Dec. 20, the Federal Reserve dropped the discount rate it charges banks a full point to 3.5%, the lowest level in 27 years. Coming on top of earlier rate cuts, this should get the economy moving again. By spring, lower rates should start boosting consumer spending and the housing market. Corporate profits should revive with them, freeing more cash for investment in new plants and equipment. And since 1992 is a Presidential election year, some sort of fiscal stimulus is practically guaranteed. Under the circumstances, even the most pessimistic forecasters don't see the recession lasting much past midyear.

Still, after three years of subpar growth and a long string of missed economic forecasts, many corporate executives are wary of predicting recovery. "Every time I pick up a newspaper, I read about our customers scaling back. Tenneco is restructuring. Du Pont is restructuring. That means we won't do as much work," says W. B. Pieper, president and chief



Executive of Brown & Root Inc., a Houston-based engineering and construction company. At best, Pieper sees the overall outlook for 1992 as about the same as in 1991. Agrees Andrew J. Grove, chairman and chief executive at semiconductor maker Intel Corp.: "I have a feeling of pervasive stagnation. Not up, now down, just stagnation."

Indeed, the current wave of job cutbacks almost guarantees no growth in the short run. Certainly, some industries are firing, notably in health care and on Wall Street (page 58). But the layoffs that started in the service sector have spread to manufacturing, which supposedly got rid of its fat, both on the shop floor and in management suites, in the early 1980s. Now, it seems that those earlier cuts weren't deep enough. As global competition has intensified, so has the need to keep lowering costs.

LOW WORLD. This means that the unemployment rate could keep rising until well into 1992—and that there won't be much growth in consumer spending in the first half. With fewer jobs, incomes will rise slowly, if at all. And what extra money consumers do

have will be largely eaten up by higher state and local taxes. That's why exhorting consumers to spend more, as President Bush has done, won't help. Consumers' confidence is way down, but their biggest problem isn't psychological. It's a lack of jobs and income.

As if that weren't enough, manufacturers in most industries won't get much boost in the first half of the year from rising exports, which helped make up for stagnant domestic demand for much of last year. DRI/McGraw-Hill sees exports growing

at an annual rate of only 3.2% in the first two quarters, down from 5.7% in 1991, due to a slowing of many world economies, including Japan's and Germany's. Steel exports, for example, which boomed to nearly 7 million tons in 1991, could drop 30% this year (page 70). Even exports of capital goods, such as airplanes, machinery, and sophisticated electronics, are vulnerable to tough times overseas.

Still, the export picture may brighten in the second half. Britain and Canada, which take about a quarter of U.S. exports, should escape from recessions that predated the one in the

A MIXED OUTLOOK FOR 1992

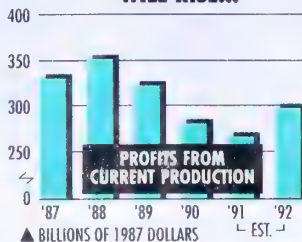
UNEMPLOYMENT WILL STAY HIGH...



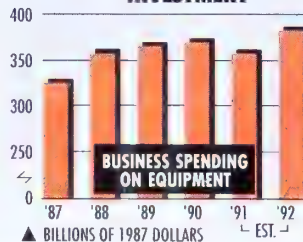
...AND EXPORT GROWTH WILL SLOW...



...BUT PROFITS WILL RISE...



...AND SO SHOULD INVESTMENT



DATA: DRI/McGRAW-HILL, BW

INTRODUCTION

U.S. And fast-growing Mexico, now the third largest purchaser of U.S. exports, should continue to increase its appetite for U.S. goods and services.

FALL IN RATES. At home, as the economy remains weak, inflation should stay under control. Thus, long-term rates could fall as low as 6%, some economists say, pulling down mortgage rates, too. That could put an extra \$50 billion in the pockets of homeowners as they refinance old home loans. Falling rates may also work small wonders for the new home market. The inventory of unsold new homes has shrunk by 25% since mid-1989, setting the stage for a revival of residential construction. "The housing market will surprise some people," says Douglas Lee, chief U.S. economist at County Natwest Securities.

Once the economy starts to turn up, corporations will start

boosting capital spending. They'll take advantage of lower rates, and the higher profits generated by their recent cost-cutting, to make the investments they need to remain competitive. That should be true even for industries such as steel and chemicals, which already are among the world's lowest-cost producers. Indeed, a recent Commerce Dept. survey of capital spending plans shows that there could be a 5.7% real increase in 1992. While that's much less than in the boom years of the late 1980s, it's still a respectable number.

Increased capital spending reflects the competitive pressures of international markets. Procter & Gamble Co., for example, announced in October that it intends to invest more than \$400 million worldwide in new products and global expansion in its fiscal year that began in July. That's about 50%



MICROSOFT'S OKI FILLS 70 JOBS A WEEK



CEO CLARK GOING BROKER

THIS SIGN OF THE TIMES SAYS 'HELP WANTED'

MICROSOFT'S PERSONNEL EXPLOSION

Eight out of every 10 new hires accepts a salary cut just to join Microsoft Corp. Then, they work an average of 60 hours a week, says Senior Vice-President Scott D. Oki. Microsoft has no shortage of applicants, though. Drawn by its prestige and potentially lucrative stock options, they are joining the software giant at the rate of 70 a week.

In fact, the Redmond (Wash.) company, whose \$1.8 billion in revenues is growing by more than 50% a year, has added some 1,400 employees since July, bringing its total to nearly 10,000 worldwide. It will hire an additional 1,100 to 2,300 before its fiscal year ends on June 30. As head of sales, marketing, and services operations, Oki has presided over much of this expansion. He concedes that

Microsoft is benefiting from tough times elsewhere. New hires see his company as a safe haven—and they're probably right. Like most software makers, Microsoft sells products that boost productivity. As many of its customers issue pink slips, their remaining employees have to work smarter. A lot of companies now, says Oki, "are making investments not in head count but in technology."

To capitalize on this, Oki has set up a consulting-services unit to help customers get the most from computer systems they already have. He recently hired 60 employees to staff the new unit. And Oki has bolstered by 15% the ranks of Microsoft's customer-support, technical-education, and strategic-planning operations. Oki, 43, joined Microsoft in 1981, when it had just 100 employees, so he has dealt with fast growth before. And in 1992, it seems, he'll do it again.

A WINNING STREAK FOR SHEARSON

There won't be any hiring freeze at Shearson Lehman Brothers this year. Instead, the American Express Company subsidiary expects to lure brokers from rivals on the Street and up its broker-training program to add an additional 600 to 1,000 salespeople. Many of the trainees will be professionals hired from such industries as advertising, retailing, and computer sales. Shearson's help-wanted ads will run in *Women's Wear Daily*, *Adweek*, *Week*, and even the *Chronicle of Philanthropy*—in case some fund-raiser is looking for work.

Why such plans in a down economy? For one thing, Wall Street had a rough 1991. Strong market volume brought healthy commissions from stock and bond sales. Shearson recovered from a \$129 million loss in 1990, to earn operating profits of \$281 million in the nine months of 1991, before taking a \$10 million in onetime write-offs. Shearson's Chief Executive Howard L. Clark Jr.

more than its average such investment over the past three years. Wendy's International Inc. and its franchisees opened or started building 140 new restaurants in 1991, after showing no net gain for several years, and plan more additions in 1992 (page 88). And new environmental spending to comply with the Clean Air Act will almost certainly help companies such as Brown & Root. Even strapped state and local governments will take advantage of lower interest rates. The Public Securities Assn. expects that the public sector will issue \$62 billion in bonds for road, bridge, and other repairs in 1992, up 20% from last year. Governments will do this in part to get their share of the \$150 billion that's available under the federal transportation bill that President Bush signed on Dec. 18.

Of course, not everyone is boosting spending. GM just announced a cut of \$1.1 billion, or about 8%, in its investment plans for the next two years. And American Airlines Inc. is

the rest of the economy to catch up in 1992 and 1993. "As a general rule," he says, "the Street is a leading indicator of rate profitability."

Person also can increase its staff out new brick and mortar. It overextended in the 1980s, and still has excess space and trade-processing capacity. Clark wants to use it all. He plans to use brokerage revenues from the \$1 billion generated last year, by 8,000 workers, to more than the \$1.93 billion person got in 1989, from 10,300 sales. "We have to put more revenue through our factory," says Clark. "We're going to get a lot on the table."

ING BODIES—AND BANKBOOKS

At a time when giants such as General Motors Corp. plan to lay off tens of thousands of workers, Marshall V. Rozzi feels uncomfortable boasting about U.S. Healthcare Inc.'s hiring plans for 1992. "We deal with employers all the time, so we understand the kind of pressures they're up against," Rozzi, an executive vice-president in charge of the health maintenance organization's network of doctors, hospitals, and nursing homes.

Facing those pressures helped fuel the Bell (Pa.) company's spectacular growth last year, as employers turned to



it for less costly medical care. Analysts estimate U.S. Healthcare's earnings jumped 83% in 1991, to \$142 million, while revenues rose 27%, to \$1.7 billion, and membership grew 11%, to more than 1.2 million subscribers. Such growth required it to boost employment 18% in 1991, to 2,300. Rozzi expects a similar increase this year: "People still get sick, whether they have a job or not."

U.S. Healthcare's success is unusual given the estimated 62% profit decline in 1991 for 536 HMOs. The company boosted its premiums by 14% to 15%—about the same as the overall industry. But, says Rozzi, it kept a tighter grip on expenditures than did most of its rivals.

That may be the key to success again this year. At least one thing is certain: As health bills rise, managed care plans such as those sold by U.S. Healthcare will seem increasingly attractive.

deferring or dropping options it has on airplane orders with McDonnell Douglas, Boeing, and Fokker Aircraft. It's also cutting back planned spending on ground equipment in order to pare \$8 billion from its \$16 billion capital-spending budget over the next four years. Says Donald J. Carty, American's executive vice-president for finance and planning: "Any recovery will be very slow. I'm not convinced it will come in 1992."

Such doubts could be assuaged if Washington gives the economy a big enough fiscal jolt, in the form of a substantial tax cut or higher spending. That hasn't happened yet. But President Bush will want to see a recovery before voters head for the polls in November. So, the odds are good that enough stimulus will be found to get the economy moving again.

By Michael J. Mandel, with Michael Oneal in New York, Deborah Fowler in Houston, Zachary Schiller in Cleveland and Michael Schroeder in Pittsburgh

IT'S 'FULL SPEED AHEAD' AT NISSAN

For Nissan Motor Corp., 1991 was nothing to brag about. Its U.S. auto sales dropped 7% in the first 11 months, and prospects this year don't look much better. Even so, the Smyrna (Tenn.) auto maker, the first Japanese transplant in the U.S., is adding a \$490 million assembly line to make a midsize Stanza sedan by summer. That will raise capacity at Smyrna to 450,000 vehicles a year. Nissan has added 700 workers for the new line and will hire an additional 1,000, raising total employment to 6,000.

Jerry L. Benefield, president and CEO of Nissan Motor Manufacturing Corp., says that three years ago—before the U.S. car market crashed—Nissan decided to replace the 100,000 Stanzas it has been importing to the U.S. with cars made here. It never considered delaying the decision, says Benefield: "It's been full speed ahead since we made it." In fact, if total U.S. car sales pick up in the second half, the midsize sedan could "hit the market at really the right time." It wouldn't be the first time the Japanese made a smart investment while their U.S. competitors hunkered down.



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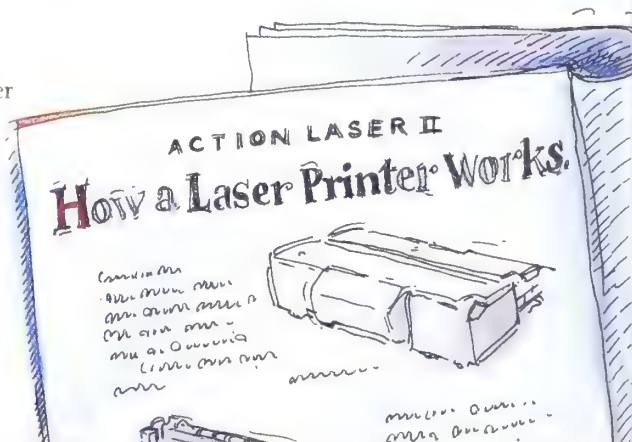
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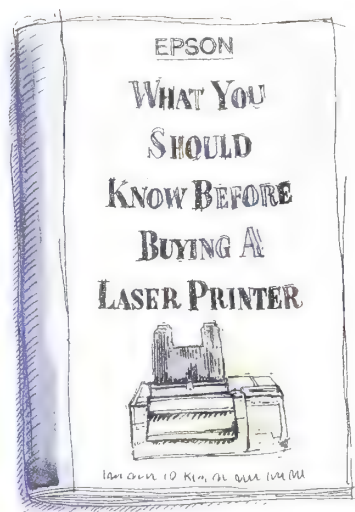
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FOR DETROIT, ANOTHER 40 MILES OF BAD ROAD

After a devastating year, it will slash costs to cut its losses

Detroit is looking to both Washington and consumers for a lift this year. It's counting on the government for more pre-election economic stimulus, plus an easing of planned or contemplated regulatory burdens. If it gets both, analysts figure that sales of cars and light-duty trucks could increase about 7% in 1992, to a modest but healthier 13.5 million units. Coupled with drastic cost-cutting measures, this could help auto makers bounce back from 1991, when they recorded their biggest one-year loss in history. But Detroit's Big Three could remain in the red through 1992.

Faced with that likelihood, carmakers have trimmed their once-ambitious first-quarter production schedules to about the same levels as in the dreary first quarter of 1991. In part, this reflects recent declines in consumer attitudes toward car purchases. Richard T. Curtin, director of the University of Michigan Surveys of Consumers, says buying attitudes improved early last year on hopes of big rebates, then receded when the initial discounts weren't so big. "Consumers haven't given up," says Curtin. "They've simply concluded that they have to wait longer [for larger rebates]."

How much larger, Detroit might well wonder. By November, Chrysler Corp. was offering an average \$3,922 incentive on its cars and trucks. That was up from \$1,961 a year ago, and it more than offset price increases on 1992 models, which averaged less than \$150 on comparably equipped vehicles, according to Autofacts Inc. in West Chester, Pa. Even that didn't get recession-weary customers off the sidelines. So carmakers are relying increasingly on cut-rate sales to corporate and rental fleets. Morgan Stanley & Co. analyst Scott F. Merlis estimates that fleets are buying a record 30% of all new cars. Moreover, hard-bargaining consumers are buying cheaper models and adding fewer high-margin options. The combined effect for Detroit: about \$500 less revenue per car, Merlis says.

STICKER CHOP. "Once you lower your price assumption by \$500 a unit," he adds, "your margin assumption sort of implodes." Still, his guess of a consolidated 1992 loss of \$481 million for the Big Three pales beside 1991's estimated \$6.9 billion loss, which broke 1980's record of \$4.2 billion. More upbeat, Ford Motor Co. President Philip E. Benton Jr. says: "We'll surprise you, as the market comes back, with how fast our profits follow."

Indeed, carmakers are cutting costs everywhere. On Dec. 18, General Motors Corp. said it would close 21 plants by 1995 and eliminate 80,000 jobs, a 50% drop in its North American employment since 1985. About 25,000 of those jobs will disappear this year. Chrysler trimmed its salaried staff by about 10%, or 3,000 jobs, in 1991 and plans more cuts this year. New-car programs are sacrosanct, though. After axing such plans during the early 1980s recessions, Detroit spent the rest of the decade playing catch-up with the Japanese. This time, only a few new models will be delayed, including a new GM compact pickup.

Faced with so many problems, Detroit is lobbying furiously against proposals to tighten existing fuel-economy rules. One bill in Congress would raise the average mileage required of domestic fleets from 27.5 miles per gallon to 40. This probably won't pass, but carmakers are leery of any increases, which would boost sticker prices at a time when customers are showroom-shy. The Big Three also are talking tough on trade, insisting that Washington put new tariffs on Japanese minivans that allegedly sell here for less than it costs to make them. An early ruling by the Commerce Dept. agreed with Detroit, but a final decision and any extra duties are months away. On Nov. 26, meanwhile, GM, Ford, and Chrysler joined with 31 auto-parts suppliers to form a lobbying consortium to confront Washington on an even broader range of trade and regulatory issues. "If ever there was a mandate for redefining the relationship between government and business, the tough

period we're facing provides it," says Dana Corp. Chairman Southwood Morcott, co-chairman of the new group with Ford Chairman Harold A. Poling.

There is sympathy for the carmakers on Capitol Hill, where several protectionist steps have been proposed. These range from curtailing Japanese imports—unless the U.S.-Japanese trade deficit declines by 20% a

year—to Congressional scrutiny of the local content of U.S.-made Japanese cars. "We're real worried about what's going on in Washington," says George Borst, vice-president for strategic and product planning at Toyota Motor Sales Inc. "Reason and logic have flown out the window." Borst thinks the Big Three's combined market share, which dropped two points, to 70%, in 1991, will rebound this year. He cites Japan's voluntary import restraints, plus the inability of its capacity-constrained "transplant" factories to keep up with U.S. demand.

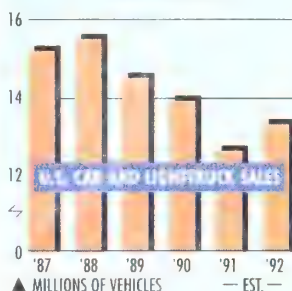
That's not for lack of trying, though. Last year, according to *Ward's Automotive Reports*, transplants accounted for a record 25% of U.S. passenger-car production and 18% of domestic car and light-truck output. And at a time when U.S. assembly plants have enough excess capacity to displace every imported vehicle, transplants are adding capacity. In Smyrna, Tenn., for instance, Nissan Motor Manufacturing Co. is hiring to staff another assembly line (page 59). Combine such moves with plans by Chrysler and Ford to start new Jeep and minivan lines, and this year's projected sales upturn will leave the domestic industry operating at 74% of capacity, vs. 65% last year, estimates analyst Ronald Glantz of Dean Witter.

Hoping to quell antagonism over their rising U.S. market share, the Japanese are promising to buy more U.S.-made parts, both here and in Japan. Mazda, Toyota, and Nissan each pledge to buy between \$3 billion and \$5 billion worth by 1995, up from \$1.5 billion last year. American parts makers like the sound of this. But they, and the Big Three, need more than promises. They need sales.

By James B. Treece in Detroit

**'WE'LL SURPRISE YOU,
AS THE MARKET COMES BACK, WITH
HOW FAST OUR PROFITS FOLLOW'**

A PARTIAL REBOUND IN AUTOS



DATA: BW, MORGAN STANLEY GROUP & CO

CASUALTIES OF PEACE

Cutbacks in defense spending may spark more consolidation in the arms industry

The stunning speed with which the Soviet Union disintegrated means that both the West and the former Soviet republics will soon waste a lot less money on defense.

Long range, that should boost the economies of both. But for many U.S. defense contractors, the timing couldn't be worse. Their 1992 profits could improve modestly, reflecting several years of savage cost-cutting. As the Pentagon cuts back further, however, many contractors will shrink.

The Pentagon's 1992 procurement budget is \$65 billion, about half of what Washington budgeted for weapons and supplies in 1985, the recent peak year. With the Soviet Union gone, procurement could drop an additional 5% a year in the '90s, predicts Gordon Adams, director of the Defense Budget Project, a Washington research group. "The wolf has been at the door for years," he says. "Now he's blown away the house."

The fallout could linger for years. Further consolidations and fire sales of facilities seem certain. Mergers of prime aerospace contractors are likely at last. By 1995, some 500,000 more U.S. defense jobs may be eliminated, double the number since 1985. Says Daniel M. Tellep, chief executive officer of Lockheed Corp.: "We may not have seen the worst of it yet."

BOMBERS AWAY! Some contractors, such as General Dynamics Corp., may sell off commercial units and buy small defense companies that still have order backlogs. Others, such as E-Systems Inc. and Litton Industries Inc., may make bold forays into commercial markets, a risky tactic since defense companies rarely know how to sell in that arena. Still others will try to tap foreign defense markets. In each case, the motivation will be the same: to lessen dependence on the Pentagon.

No major contractor is more exposed than Northrop Corp., which gets 50% of its revenue from one endangered program—the B-2 bomber. In April, Congress will decide whether to buy only 15 planes, instead of 75 for \$65 billion. A cancellation would create a contract void for Northrop, which lost out to Lockheed last year on a \$75 billion program for the Air Force's advanced tactical fighter.

There could be other big cancellations in 1992, primarily of weapons aimed just at the former Soviet republics. Among them are the U.S. Navy's \$60 billion Seawolf submarine program, shared by General Dynamics and Tenneco Inc., and the \$40 billion Trident II submarine-launched missile, for which Lockheed is the lead contractor. United Technologies Corp. and Boeing Co. may also lose contracts for the Army's \$35 billion Comanche helicopter. And with the Pentagon's \$39 billion research-and-development budget

stretched tight, Lockheed's hard-won contract for the Air Force's F-22 fighter, which is scheduled to go into production in 1996, may end up in the deep freeze instead.

Not every company will suffer to the same degree. A few defense electronics contractors, including Loral Corp. and Raytheon Co., will still get work because of the success of their products in last year's gulf war. And the Pentagon has authorized \$4.2 billion in fiscal 1992 for the Strategic Defense Initiative, mainly for research on setting up a ground-based missile defense system in North America. This will profit SDI contractors such as TRW Inc. and Martin Marietta Corp. Another budget survivor will be Milstar, an improved military-communications system. In the Middle East, the Pentagon had to

rent commercial satellite time to talk to commanders in the field. Milstar could mean \$7 billion for Lockheed and such subcontractors as TRW and Rockwell.

Other orders will be few and far between, though. That's why General Dynamics, which wants to remain a big weapons maker,

is combing the U.S. for smaller contractors with decent defense backlogs. It also explains why Litton spent \$81 million last August to purchase General Instrument Corp.'s defense systems unit: That electronic warfare subsidiary does about \$120 million in defense sales annually.

Buying the backlogs of others will work for just so long, however. Other contractors are trying to become civilian manufacturers. E-Systems, for one, is marketing to private customers a supercomputer data storage system it originally developed for the Pentagon and the CIA. The first sale went to Mobil Corp. The business had sales of only \$10 million last year, but analysts think it could grow to \$75 million by 1994.

Those that can't manage any other strategy may enter into joint ventures with foreign weapons companies. McDonnell Douglas Corp. and Matra, a French defense contractor, are jointly marketing the Mistral air-to-air missile. This French weapon, with sales of \$85 million annually, could be the forerunner of other joint projects. And with an eye on the \$750 million that Germany may spend in the next four years to dismantle the arsenals of former East bloc countries, Minneapolis-based Alliant Techsystems is exploring joint work with German defense contractors.

Such deals can't be arranged quickly or easily, however. Thus, as Congress sharpens its budget knife, a lot of companies are going to get hurt even more. Along with the benefits, peace has its casualties.

By Eric Schine in Los Angeles



MORE BAD NEWS FOR DEFENSE WORKERS



DATA: DEFENSE BUDGET PROJECT

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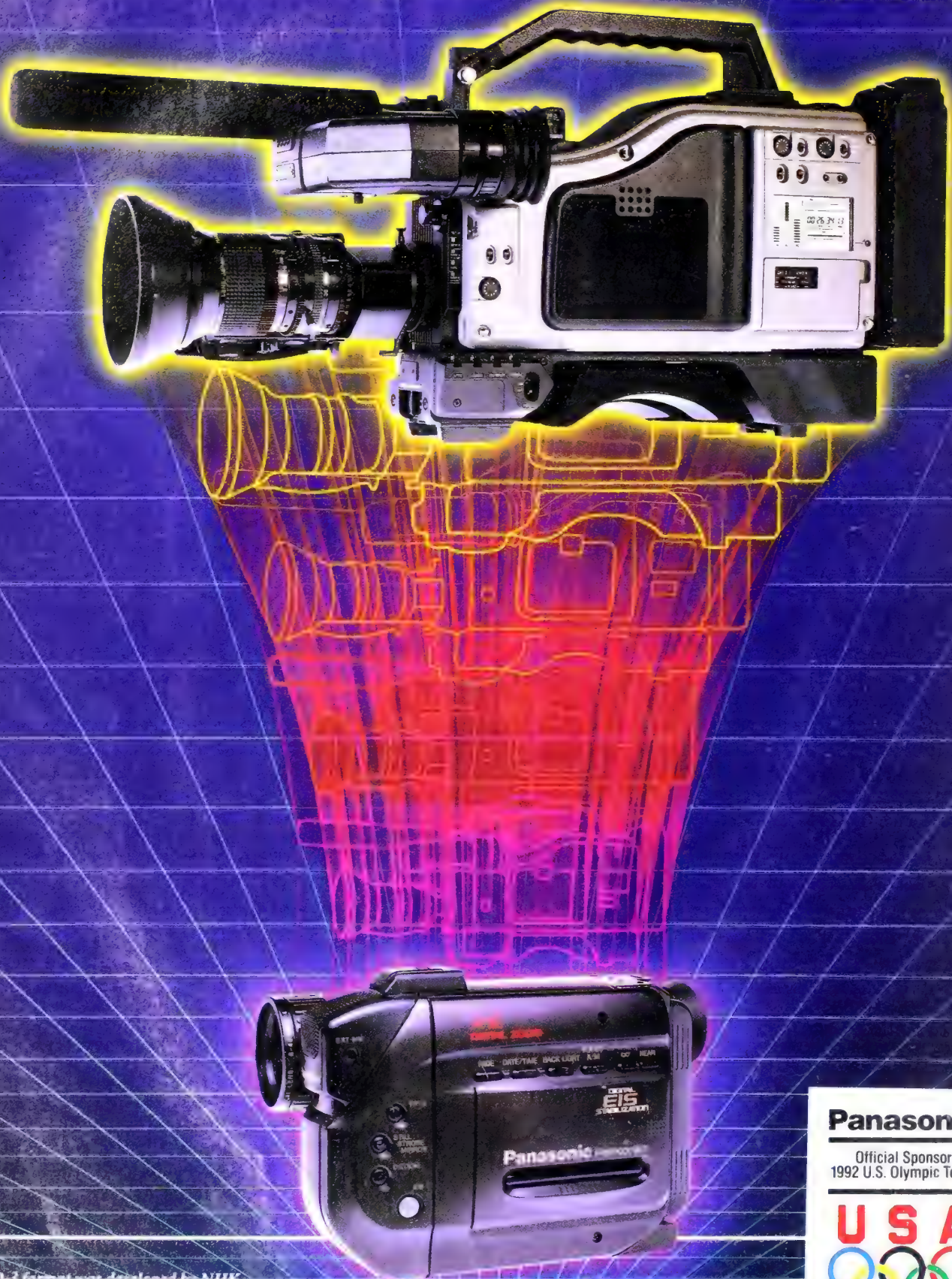
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RETOOLING FOR A WAVE OF CONSOLIDATIONS

To stay competitive, manufacturers are teaming up and shopping overseas

Machinery makers spent much of the 1980s restructuring, combining, and culling their unproductive assets. They haven't finished. There will be more consolidation and reconfiguration this year that will create new leaders and eliminate some of the industry's grand old names.

Already, the news is dramatic. Giddings & Lewis Inc. became the top U.S. machine-tool maker last Oct. 31 with its buyout of tottering Cross & Trecker Corp. Ingersoll-Rand Co. and Dresser Industries Inc. are awaiting Justice Dept. approval to meld their pump operations and create an \$800 million business. Clark Equipment Co., the No. 2 U.S. supplier of forklift trucks behind Hyster-Yale, itself the offspring of a 1989 merger, has put that business on the block with a foreign company the likely buyer. And Caterpillar Inc. may put its lift-truck operations into a joint venture with Mitsubishi Heavy Industries.

To be sure, hundreds of companies will still make machine tools, pumps, materials-handling equipment, and compressors for U.S. factories. But eventually, says J. Phillip Frazier, chairman of Hyster-Yale, "just a few [lift-truck] companies will end up supplying" the worldwide market. Indeed, to be competitive and seize growth opportunities, a machinery maker needs to spread its research and capital costs over a large volume of products. "It takes more depth and breadth of product to make a machine-tool company today, compared to the late '70s," says Giddings & Lewis Chairman William J. Fife Jr.

This usually means building a major overseas presence, since the fastest-growing machinery markets are outside the U.S. "We see the customer base going global," says Thomas E. Bennett, executive vice-president of Ingersoll-Rand. So do foreign suppliers, including Mannesmann Demag, the big German equipment maker, which has said it will buy U.S. conveyor maker Rapistan Corp.

Another reason for consolidation is lackluster U.S. demand, which is holding down prices and profit margins. Bennett notes that in inflation-adjusted dollars, U.S. pump sales are lower than a decade ago. "Every deal is a fight," adds Adrian de Caussin of Fadal Engineering Co., a maker of machining centers in North Hollywood, Calif. Demand is soft in part because U.S. manufacturers are operating below 80% of capacity, a level at which they usually buy new equipment. Banks aren't eager to lend for machinery. And corporate profits are sagging. The auto industry, for instance, has delayed some spending, contributing to a 16% drop in U.S. machine-tool orders in the first 10 months of last year. And orders for pumps are easing as cyclical spending booms wane in the pulp, paper, and chemical industries.

Major capital programs typically lag behind

upturns in consumer spending as a recession ends. So, machinery makers are as anxious as anyone to see gains in consumer confidence and retail sales. Many expect their orders to pick up in the second half, and some think they already see an uptick. Among these are lift-truck makers, whose shipments fell 12% in 1990 and 17% more in the first 10 months of 1991. In the past few months, orders have turned up, and producers expect their billings to rise between 4% and 10% in 1992.

NO PUMP SLUMP. A few toolmakers see renewed demand, too. They predict that as manufacturers modernize, orders could rebound 20% in 1992, reaching 1990's \$3 billion level. The aerospace market is actually robust. And BWIP Holding Inc., a California-based pumpmaker, expects another good sales year in 1992. It sees strong buying from the oil industry, both

abroad and in the U.S., because of heavy spending on equipment to comply with new clean air rules.

The most optimistic sign for 1992 may be that foreign orders remain strong for some types of U.S. tools. It's true that machine-tool makers racked up another \$1 billion trade deficit last

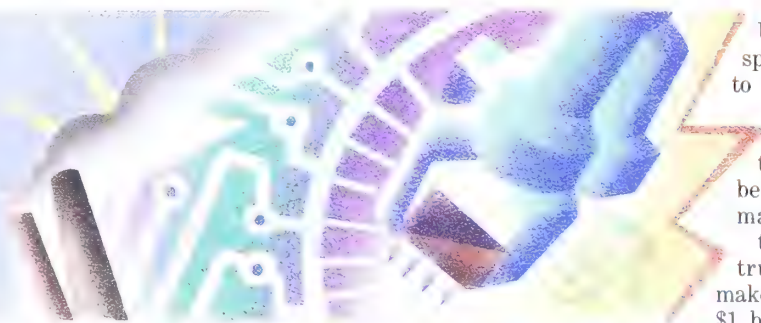
year, prompting the industry's trade association to lobby for an extension of import quotas. Still, Cincinnati Milacron Inc. says its export sales climbed 50% in 1991.

Another tonic for margins is better efficiency. Despite soft orders, Goulds Pumps Inc. has improved earnings from its industrial pump operations by cutting in half its order-to-shipment times and improving its on-time deliveries. President Jeffery T. Grade says Harnischfeger Corp.'s investment in new overhead crane designs at its plant in Oak Creek, Wis., helped it boost operating profits in that business by 44%, on flat sales, in the 12 months ended Oct. 31. At Giddings, Chairman Fife is quickly integrating Cross & Trecker, in part by centralizing sales and engineering. One result: 562 layoffs which should save \$25 million annually and might make the old C&T facilities profitable in 1992 for the first time in six years.

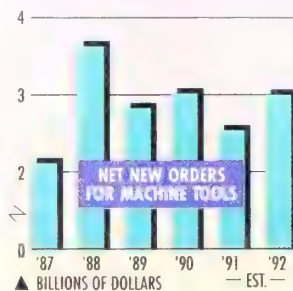
In fact, belt-tightening is now standard procedure for machinery makers. "We're looking to make a profit on a low volume of business," says E. Kidder Meade, group vice-president for marketing at Litton Industrial Automation. Milacron, which continues to shed unprofitable assets and businesses, is overhauling its machine-tool product line in hope of boosting sales and cutting costs by lowering the number of parts in each model.

Milacron's basic problem, of course, is that U.S. customers have been slow to modernize. This won't change overnight, says Chairman Daniel J. Meyer. Still, it has to happen eventually if the U.S. is to compete in world markets and maintain its standard of living.

By Zachary Schiller in Cleveland



AN UPTICK FOR TOOLMAKERS



DATA: THE ASSOCIATION FOR MANUFACTURING TECHNOLOGY, BW ESTIMATES

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COLD COMFORT FOR STEELMAKERS

A modest improvement is coming, but bigger mills will still be smarting

For U.S. steelmakers, 1991 was a bitter pill. The industry had expected a mild recession. Instead, shipments fell 9%, to about 77 million tons. Prices plummeted to 1982 levels amid intense competition from small producers. As a result, the integrated steel producers—companies that make steel from scratch instead of by melting scrap—lost an estimated \$1.5 billion on sales of \$37 billion, compared with a loss of \$220 million on sales of \$39 billion the year before.

Things have to get better—and they will this year. Small increases in demand from the auto and construction markets could boost steel shipments 4%, to 80 million tons. Meanwhile, rising labor costs should be partly offset by a dip in energy and raw materials costs. If average prices inch up perhaps 3%, to \$490 a ton, the industry could break even on sales of \$39 billion, analysts think.

'PINS AND NEEDLES.' Several of the largest steelmakers will struggle, though. For instance, major integrated mills such as Inland, LTV, and National get more than two-thirds of their sales from flat-rolled steel, which is used in making autos and appliances. This year, such cost-conscious buyers as General Electric Co. are resisting the steelmakers' attempts to get price increases on flat-rolled. "We're on pins and needles," says David H. Hoag, chairman of LTV Corp.

Steelmakers aren't optimistic about their February negotiations with the auto industry, either. Slumping auto sales have already caused Detroit's Big Three to scale back production plans for the first quarter (page 63). Thus, proposed steel price increases, led by USX's 6% hike, probably won't stick. The wild card is whether consumer confidence turns up. If it does, a second-half surge in auto sales could boost purchases of flat-rolled used in car bodies by 7%, to 10.6 million tons, predicts Joseph A. Rainis, chief economist at National Steel Corp.

A few steel markets already look brighter. DRI/McGraw Hill forecasts that shipments to the construction industry will increase by 17% this year, to nearly 11 million tons. One reason is that a \$151 billion federal transportation bill President Bush signed on Dec. 18, will fund new road and bridge projects. This could fill order books for concrete-reinforcing bar and structural steel. And lower mortgage rates should spur sales of homes and the appliances that go in them (page 120).

Steelmakers will benefit from all this right away. At the end of past recessions, there has been a lag of six months or so before steel orders rose, as customers worked off their inventories. But this year, inventories are at the lowest level since the Steel Service Center Institute started counting in 1978. These centers, distributors that account for 25% of U.S. purchases, have only a 2.8-month supply. DRI predicts that shipments to service centers

this year will total 20.9 million tons, an increase of 20%.

There the good news ends, however. In 1991, strong demand in Asia plus a relatively cheap U.S. dollar pushed foreign sales of U.S. steel to nearly 7 million tons, the most since 1974. This year, foreign economies will slow, trimming steel exports to less than 5 million tons. At least imports won't grow. The weak dollar could hold them to about 18.3% of the U.S. market—the same as last year. That's below the 20.3% cap set by voluntary restraint agreements (VRAS) that expire in March.

Even so, imports may become a contentious issue. A new steel trade agreement was supposed to have replaced the quotas. Now, it isn't expected until later this year at the earliest. If an accord doesn't materialize, domestic steelmakers

say they may file dumping complaints against Japan, Brazil, and Korea, among others—a move that could scuttle the trade talks.

The other possibility is that President Bush could extend the VRAS. He has said he won't. But election-year politics make it a 60-40 possibility, analysts say. John K. Griffin, president of the American Institute for International Steel, is

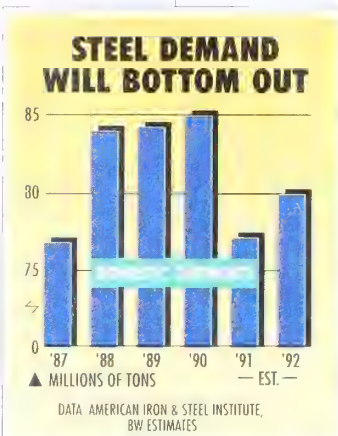
one who thinks quotas are not needed. U.S. steelmakers, he claims, are much better prepared to hold off imports now than when the VRAS were negotiated in 1984. In the 1980s, the Americans slashed their steel employment by 58%, to 164,000 workers, cut their capacity by 30%, to 117 million tons, and spent billions to modernize. Now, they can produce a ton of cold-rolled steel in 5.3 work hours, down 44% from 10 years ago, which bests both Japan's 5.6 hours and Germany's 5.7.

Ironically, the toughest competition for Big Steel now comes from domestic minimills, which recycle scrap, and from small "reconstituted" mills—facilities spun off from rivals and made more efficient. One of the former, Nucor Corp., needs only 0.8 work hours to make a ton of high-quality flat-rolled sheet at its brand new Crawfordsville (Ind.) plant.

Continued pressure from such companies is forcing the large integrated mills to close more capacity. In July, the American Iron & Steel Institute shaved its estimate of U.S. primary capacity from 119 million tons to 117.6 million. Christopher Plummer, an analyst at WEFA Group, thinks that could fall to 115 million tons this year. USX, for one, may close its South Works in Chicago. And the failure of joint venture discussions between Bethlehem Steel and British Steel could lead to the closing of Bethlehem mills in Harrisburg and Bethlehem, Pa.

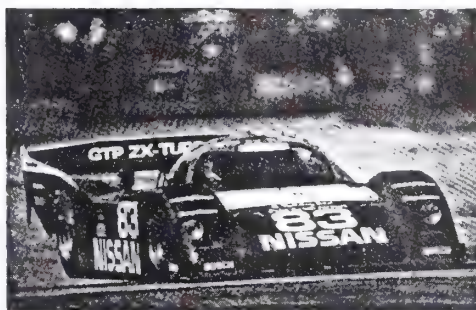
"Overall, steel will have a better year than last," says Herbert Elish, chairman of West Virginia's Weirton Steel Corp. But better is relative. Even companies that have remade themselves don't have the luxury of relaxing.

By Michael Schroeder in Pittsburgh



NISSAN WINS MANUFACTURERS CHAMPIONSHIP FOR THIRD YEAR IN A ROW.

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Chip Robinson and Geoff Brabham, still suffering the effects of a practice-round crash, suffered at Road America two months ago, fended off the usual complement of Porsches and Jaguars this season to make Nissan the first Japanese manufacturer to do the hat trick in what has been called "the toughest test in American racing." The victory also established Nissan as the most reliable builder of GTP cars in the last few years. In fact coupled with a GTU championship, it could make Nissan

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Last year's cost-cutting will mean fatter margins in '92

Some of the fun went out of the party for chemical makers last year. The industry's net earnings fell 10%, to \$21 billion, even though sales rose marginally, to \$290 billion. This mainly reflected the recession, which cut demand, held the average chemical price increase to 1.5%, and left producers operating at only 78% of capacity, down three points from a year earlier. This year looks brighter. Industry sales could rise 5%, analysts say. Earnings could jump 16%.

In part, 1992's higher margins will reflect lower costs for most producers. True, compensation costs are rising, especially for health care. But the price of oil, a key feedstock as well as a fuel for many chemical plants, is down to \$18.75, after spiking to as much as \$40 during last year's gulf war. Overall, raw-material costs for chemical makers could be down 2% this year, says the Chemical Manufacturers Assn. (CMA).

Other indicators of the industry's health should be strong, too. Research and development expenditures, which rose 5% last year, to \$13 billion, should increase at about the same rate in 1992. The trade balance in chemicals won't look as impressive as it did last year, when exports rose 7%, to \$43.5 billion. But there should still be a surplus of about \$18.5 billion, compared with \$19.5 billion in 1991.

RECOMBINATION. Last year's trade number partly reflected strong demand from Europe after the war cut supplies of petroleum-based chemicals. But the cheap dollar doesn't hurt. And the domestic industry is starting to profit from five years of restructuring, which was spurred by fierce foreign competition. In mid-December, Union Carbide Corp. said that before midyear it will spin off to shareholders Union Carbide Industrial Gases Technology Corp., one of the world's three largest industrial gas producers. UCIG's worldwide sales in 1990 were nearly \$2.4 billion, up 17% from the year before. Splitting it off from other Carbide businesses will give it a sharper management focus and direct access to capital—both prerequisites for success in international competition.

American Cyanamid Co. is also slimming down and shaping up. Last year, it sold several of its elastomer businesses, which make rubber-like materials, as part of a plan to get rid of one-third of its worldwide chemical operations. What's left, says Chief Executive George J. Sella Jr., will be regrouped into a new, more profitable international unit. In 1991, chemicals contributed about \$1.1 billion to Cyanamid's overall sales, 25% to 30% of the total. But operating earnings of those operations were only about \$30 million, and most of that was from agricultural chemicals.

Even industry giant Du Pont Co. is slicing \$1 billion in costs from its chemical businesses. As a result, says Chief Executive Edgar S.

Woolard Jr., "we look for some improvement in our financial performance in 1992, whether or not the economy recovers to a significant degree." Demand is no problem for at least one product, the synthetic fiber Lycra. Analysts say \$900 million in Lycra sales last year produced nearly \$250 million in operating income, about 10% of Du Pont's total. The fiber is doing well because French and U.S. clothing designers have suddenly discovered it.

EMISSION CONTROL. Such success stories may be harder to find in 1992. Still, agricultural chemicals could again be good profit-makers for Monsanto Co. and IMC Corp., especially if it's a wet, buggy spring down on the farm. And fertilizer makers may do better because of big anticipated corn and wheat sales to Eastern Europe and the former Soviet Union (page 107). This year looks promising even for some smaller, diversified

producers, such as Air Products & Chemicals Inc., which makes industrial gases and pollution-control systems. In its fiscal year ended last Sept. 30, Air Products' net rose 8%, to \$249 million, on flat sales of \$2.9 billion.

Health care costs will hurt profits some this year. An October poll of

the 185 CMA member companies found an anticipated medical cost increase of 11% in 1992. More distressing for the long term will be environmental cleanup expenses. Last summer, Environmental Protection Agency Chief William K. Reilly challenged 81 companies to voluntarily halve their emissions of 17 toxic chemicals by 1995. By December, 77 had agreed to do so. Some already have made big progress. Monsanto, for example, has cut its toxic air releases by 58% from 1987 levels. Still, the cost of cleaning up abandoned or inactive hazardous dump sites will be staggering. More than \$14 billion has been spent on the Superfund program over the past decade—to sanitize fewer than 70 of the 1,200 sites on the list. Estimates put the total cleanup bill at \$100 billion to \$500 billion.

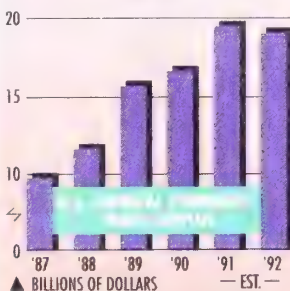
Municipal governments, lenders, and small-business groups are all lobbying Congress to be freed of their Superfund liability, which now extends to any party that has contributed 1% of the waste at a particular site. If they are let off the hook, says John W. Johnstone, chief executive of Olin Corp. and chairman of the CMA, chemical companies will have to pay more and "will be in deep trouble." He claims that the industry already is paying "a disproportionate share of the Superfund cleanup."

An equally challenging threat could develop this year. For months, there have been rumors of impending megamergers of European chemical companies. If that happens, the efforts of U.S. producers to get costs down will no doubt become even more intense.

By Jane H. Cutaia in New York



CHEMICAL TRADE SHOULD STAY BRISK



DATA: COMMERCE DEPT., BW ESTIMATES

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CALL THIS THE YEAR OF THE PICKY CONSUMER

Recession-molded habits and better labeling will keep grocery shoppers smart

For the \$255 billion food-processing industry, the recession isn't the biggest worry in 1992. Following up on its crackdown last year on low-cholesterol and other health claims, the Food & Drug Administration now is hashing out a far-reaching overhaul of basic food labels. Beyond that, consumers are displaying a new thriftiness that is expected to outlive the slump and could require big changes in tried-and-true methods of selling high-margin, brand-name foods.

As the industry wrestles with both challenges, it can console itself with healthy profits. The earnings of 11 large independent food companies could climb nearly 13% this year, vs. 11.6% last year, and their operating margins may increase, estimates John M. McMillin, a food industry expert at Prudential Securities Inc. Even a double-digit gain could look modest

if the economy recovers and cyclical industries rebound smartly. So food stocks as a group might trade at a slight discount to the Standard & Poor's 500-stock index. Still, predicts Bonnie L. Wittenburg, a food analyst for Minneapolis-based Dain Bosworth Inc., companies with vigorous growth prospects should outperform the stock market. She expects these to include Sara Lee, General Mills, and Kellogg.

ME-TOO ITEMS. They'll have to scratch for every penny, though. Excluding the effect of coupons, retail food prices plunged by \$2 billion in the 12 months ending on Sept. 30, 1991, according to market-researcher Information Resources Inc. Much of this drop was absorbed by grocers. But to protect their margins, food processors have been cutting costs. In last year's fourth quarter, for example, Kraft General Foods Inc. took a \$455 million pretax charge to streamline its manufacturing and distribution facilities. This will add \$750 million to its pretax earnings by 1996, Kraft believes. Pepsico Inc. took an aftertax write-off of \$62.4 million in 1991's third quarter, mostly to cover 1,800 layoffs at its Frito-Lay Inc. unit.

Food processors are also realizing that "good value is an increasingly important criterion" in satisfying customers, says William D. Smithburg, chairman of Quaker Oats Co. That means delivering products that can be prepared quickly and that offer higher nutrition or other features for which they will pay extra. So far, this has led to a proliferation of me-too items "where there isn't a true point of difference" between brands, concedes ConAgra President Philip B. Fletcher. To boost sales, food companies thus have been shifting advertising dollars into promotions, especially coupons. While such tactics haven't sapped margins yet, industry experts say they can erode brand loyalty and may eventually condition shoppers to buy mainly on price.

There'll be another incentive to make distinctive products once new labeling rules take effect in mid-1993. Food processors are still wading through 2,000 pages of changes that the FDA proposed in November. For instance, the government wants to end misleading health and nutrition claims such as those often made for vegetable oil. It's 100% fat, but labels often confuse the issue by claiming it contains no cholesterol. Changing labels will cost at least \$1.5 billion, the FDA says, mostly for nutritional analysis of some 366,000 items.

More information or not, consumers still prefer name brands to private-label foods—those that carry the local grocery's name. Even last year, with the recession biting into household budgets, private labels didn't expand their 13.5% or so share of the market. The bigger challenge for food processors is to

adapt to a shift in food sales patterns. In 1987, some 15% of U.S. packaged-food sales—\$37.4 billion—were made outside grocery stores, in outlets such as discounters and warehouse clubs. This year, the figure should reach \$64 billion, or 19.3% of total sales, says Technomic Inc., a consulting firm in Chicago. A huge

chunk of this will be branded foods, which some discount stores sell at everyday low prices.

Foodmakers earn about the same profit selling to alternative outlets, but they must tailor their promotions, distribution, and packaging for them. "We are giving more attention to those types of stores than in the past," notes Howard M. Dean Jr. He is chairman of Dean Foods Co., a dairy and processed-vegetables company based in Franklin Park, Ill., that is developing better bulk packaging. One recent example: a package with a handle that will hold a pair of one-gallon milk jugs.

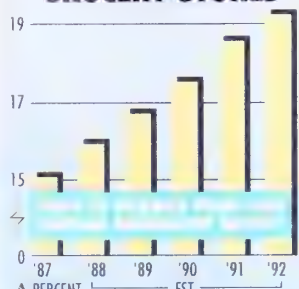
BORDER WATCH. The popularity of alternative outlets signals a change in food-shopping habits, not a boom in total U.S. food sales, which grow only 1% to 2% a year. So international expansion is the way to faster growth. As the end nears for trade barriers, Europe is drawing more attention from H.J. Heinz Co. and Kraft, which already have sizable positions there. Dean Foods and other U.S. packaged-foods giants see opportunities in Mexico, especially if the U.S. signs a free-trade pact there.

In a departure from the 1980s, few processors are looking for big acquisitions or divestitures to spur growth. True, Quaker completed its spin-off of Fisher-Price Inc. last year, and ConAgra spent \$455 million for Golden Valley Microwave Foods Inc. But at home or in Europe, says ConAgra's Fletcher, "I don't see great bargains out there." That may be true for food companies. But for shoppers, 1992 may be a buyer's market.

By Lois Therrien in Chicago



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SHOPPER SIGHTINGS REPORTED

Retail sales in 1992 can hardly help heading out of the basement

Jim Anathan, president of Filene's Basement Inc., sums up the mix of gloom and hope that most retailers feel these days. "When I pick up the papers and read about retailing now, I want to slit my wrists," says Anathan, whose 37-store, \$460 million chain is concentrated in the recession-weary Northeast. "But I do think there'll be a pickup in the second quarter, and that fall is going to be decent."

This year should at least be better than 1991, when the gulf war and an unexpectedly deep recession kept shoppers away in droves. The result was an estimated 1.5% drop in inflation-adjusted retail sales. Unending pre-Christmas promotions didn't help much: 1991 holiday sales were expected to be flat in real terms compared with 1990. Retailers did manage to rein in expenses in 1991, often by keeping a lid on inventories. Thus, companies such as May Department Stores Co., Pier 1 Imports Inc., and The Limited Inc., which had soft same-store comparisons for most of last fall, still probably managed to push profits up for all of 1991.

For 1992, revenues and profits will nudge upward again. As cautious consumers work to pay down their debt and refinance mortgages, there will be "potential increases in shoppers' budgets," says Carl Steidtmann, chief economist at retail consultants Management Horizons. By the second half, a pickup in employment should contribute to an inflation-adjusted increase in consumer spending of a little more than 1%, according to Steidtmann. Apparel sales should enjoy modest real gains as shoppers start making the purchases they deferred in 1990 and 1991. Putting all this together, Walter Loeb, a New York-based retail consultant, expects retail sales this year to rise an inflation-adjusted 1.5%.

YOUTH BUST. That's anemic compared with the 4% annual gains scored in the mid-'80s. During those heady years, the tail end of the Baby Boom entered the working population, creating plenty of demand for wardrobes, appliances, and furniture.

Those good days won't return soon. For most of the '70s and '80s, the 25-and-over set grew by 2% or more annually. In the '90s, the number of adults 25 years and older should grow by 1% or less a year. This trend translates into a long-term decline in the number of new shoppers and a slowdown in new-household formation that will hurt sales of furniture and big-ticket appliances. For older shoppers, lingering fears of being laid off will dampen any recovery in consumer confidence, which as the year began hovered around the low it hit in the 1982 recession.

In short, many retailers still have plenty to do in order to prosper or, in some cases, to reverse big losses. "In the first half of 1992, you will witness several major retailers requiring debt restructurings," predicts Lawrence Marsiello, president and CEO of CIT Factoring, which provides financing to retail suppliers. For example, R. H. Macy & Co., which has \$3.4 billion in debt, reported a \$155.4 million loss for its 1992 first quarter, ended Nov. 2. That comes on top of a \$150

million loss for all of fiscal 1991. Not to worry, says Macy's Vice-Chairman Myron E. Ullman III. "We won't file Chapter 11 now or at the end of the year." Instead, analysts expect Macy to do a big debt restructuring or to sell assets.

Another beleaguered retailer, Sears, Roebuck & Co., has cut annual expenses by about \$400 million. Analyst Peter Siris of UBS Securities Inc. estimates that continued cost-cutting could add \$1.40 to Sears' 1992 earnings per share. Sears executives still expect a tough year, though. The \$32 billion retailer relies on sales of hard goods—washers, furniture, and the like—for two-thirds of its merchandise dollars. Hardgoods sales will remain under pressure until housing starts move up strongly again (page 120).

GETTING MALLED. Sears and Kmart will have to hustle to keep pace with No. 1 Wal-Mart. In 1992, that company should boost its sales by \$10 billion, to about \$54 billion, largely by adding

stores. Its same-store sales over 1991 should be up about 9%. Analysts figure that Kmart will grow smartly, too, from \$34.5 billion to \$38 billion in sales. As it redoes its stores, Kmart is finding that sales per square foot are climbing 30% vs. the average for unremodeled locations. The renovations continue, since Wal-Mart is moving into the Northeast, a Kmart stronghold.

Others will do better with a marketing plan that fits with the subdued times. The big winner in this category is The Gap Inc. Analyst Heidi Steinberg of Salomon Brothers Inc. figures that its sales will rise to \$3.1 billion, 29% more than in 1991. Gap prices are hardly rock-bottom, but the quality is good, and the fashion fits an age when, as Steinberg says, "it's almost immoral to be ostentatious."

Catalogers such as Lands' End Inc. also deliver down-to-earth fashion. The improving quality of merchandise available through catalogs, plus a level of convenience often superior to that of department stores, fueled increases of 12% in mail-order sales in 1991, and will again in 1992, predicts catalog consultant Maxwell Sroge.

Another winner should be the manufacturers' outlet mall. These centers started more than 12 years ago as discount dumping grounds for apparel makers' unsold goods. C. Robert

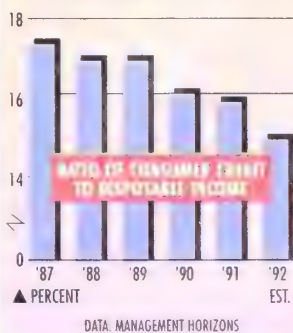
Meyers, president of Factory Outlet Consultants in Fairfax, Va., estimates that 160 such malls will open before 1995: 270 already exist. The newer centers have spiffier formats than their predecessors and are cropping up closer to cities, posing stiff competition to traditional malls. Looking for a piece of the action, top-name retailers such as Brooks Brothers, Saks Fifth Avenue, and Nordstrom are opening outlet stores, too.

The proliferation of outlet malls could further diminish the appeal of full-price stores. Yet retailers are taking the risk because they know shoppers are getting choosier. In 1992, the quest to please these elusive consumers will test retailers' marketing mettle.

By Laura Zinn in New York

FACTORY OUTLET MALLS ARE
CROPPING UP CLOSER TO CITIES,
CHALLENGING TRADITIONAL MALLS

CONSUMERS MAY BE A BIT MORE FLUSH



IT'S 'LIKE SOMEBODY HAD SHOT THE POSTMAN'

Orders are down, money is scarce, and a shakeout is starting to look inevitable

Battling slack sales, Sean B. DeForrest, CEO of American Lock & Supply Inc. in Anaheim, Calif., is trying to make it easier than ever to do business with him. Any customer with a personal computer can dial a computer at the \$70 million security products wholesaler, tap in an order, and know within seconds when it will be shipped. DeForrest says that this computer-to-computer connection gives his company a "lock" of sorts on buyers. It also cuts paper-shuffling. "Our output per person has gone up unbelievably," he says. "That has freed up salespeople to provide better service."

Across the \$1.9 trillion U.S. wholesaling industry, this approach is suddenly a hot ticket. With the dismal economy squeezing sales and with competition eroding margins, large and small distributors alike are using technology to raise productivity and boost sales—or hold on to what they've got. For a few thousand dollars, a wholesaler can "increase inventory turnover and improve service," says Roger E. Peterson, chief executive of Ace Hardware Corp., a \$1.7 billion distributor in Oak Brook, Ill. Ace credits such a system with helping boost its 1991 sales about 5% over the 1990 level.

Nowadays, wholesalers need any edge they can get. Last year, their industry's gross profits shrank an estimated 6%, to \$339.4 billion, a four-year low. This year, they may rebound by 2%, to about \$345.5 billion, according to the National Association of Wholesaler-Distributors (NAW). But margins are suffering as retailers, themselves under pressure, demand lower prices. Gross profits as a percentage of sales slipped half a point last year, to 19.6%, says the NAW, and may dip to 19% this year. "There's a hell of a lot of speculation as to whether we're still in recession or whether it's an anemic recovery. But individual companies don't care," says John F. Church Jr., chairman of the NAW and president of Cincinnati Cordage & Paper Co. What they know is that "business is down."

It could be slow in coming back. "There are things fundamentally bad in the economy," says Wiley N. Caldwell, president of W. W. Grainger Inc., a \$2 billion industrial-products distributor in Skokie, Ill. Prime among them: a cautious U.S. banking system that won't provide credit easily, especially for small distributors.

With money scarce, wholesalers are vying fiercely to preserve their share of lackluster markets. Even in the relatively healthy pharmaceutical end of the business, price competition is narrowing returns. Says Burton H. Olin, chief executive of Humiston-Keeling Inc., a \$725 million drug-distributor in Chicago: "We're seeing downward pressure on gross profits, and I don't foresee it stopping." Olin feels pinched between small regional drug distributors and the industry giants,

such as Bergen Brunswig, McKesson, and Foxmeyer. In the laboratory-supply part of the industry, business has rebounded a bit recently. But last spring was a lean time for VWR Corp. in Media, Pa., a leading distributor. "It was like somebody had shot the postman," says Chief Executive Jerrold B. Harris.

Skimpy orders are forcing restructurings by wholesalers in some hard-pressed parts of the industry or of the country. Emery H. White Jr., president of the Emery-Waterhouse Co. in Portland, Me., has had to shut an unprofitable appliance business and sell off a few of his retail outlets to cope with New England's two-year downturn. He says that sales right now "are very tough to come by" for his \$100 million hardware and building-products wholesaling company.

Some outfits haven't been able to cope. General Hardware Co. in Atlanta, once a \$130 million regional powerhouse, became a bankruptcy casualty last summer. It liquidated when slack sales left it unable to shoulder a stiff leveraged-buyout debt load.

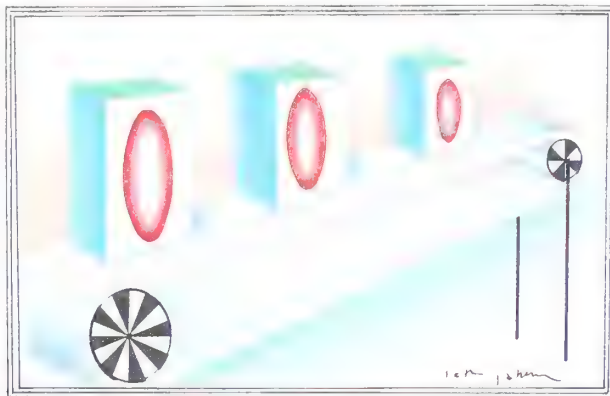
TEAM PLAY. Not surprisingly, the strain has speeded consolidation. Even in struggling sectors, suitors think efficiency and market clout are improved by teaming up. Sales and profits both have climbed nicely, for instance,

at Merisel International Inc., a \$1.5 billion international distributor of personal-computer products. It was formed in early 1990, when Microamerica Inc. merged with Softsel Computer Products Inc. Analysts think Merisel's net income could double in 1992, to \$15.1 million, if sales rise an expected 16%, to nearly \$1.8 billion. One reason: To boost their own sales, manufacturers such as Compaq Computer Corp. now use big distributors such as Merisel to blanket retailers.

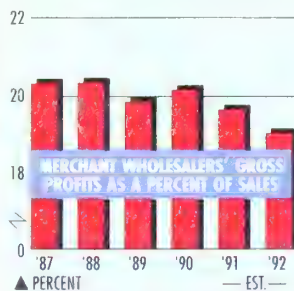
Consolidation also is being driven by big customers of wholesalers. Such behemoths as Du Pont Co. and Union Carbide Corp. prefer to deal with a few large suppliers who deliver reliably and on time. So sole-sourcing arrangements are becoming the rage, says Don A. Rice, professor at Texas A&M University and a wholesaling expert. In fact, he thinks some big buyers are going too far, moving beyond partnerships based on single product lines to exclusive deals on scores of items. "They just buy everything from one distributor," says Rice, "and that blows a lot of people out of the water."

But complaining won't stop such arrangements, he says. So U.S. wholesalers will continue to merge because competition is getting brutal. "All distributors are feeling pressure, as the customer wields more power," adds Arthur Andersen & Co. wholesaling expert Patrick W. Dolan. Indeed, for many middlemen this year, the level of service they offer may determine their success or failure.

By Joseph Weber in Philadelphia



SAGGING MARGINS FOR MIDDLEMEN



DATA: NATIONAL ASSOCIATION OF WHOLESALE-DISTRIBUTORS

AN OPERATION FRAUGHT WITH RISKS

Cutting health care costs is now a top political priority. But just how, where, and when can it be done?

It will be one of the most visible campaign issues in 1992: How to reform America's \$733 billion health care system. It was critical last November, when Democrat Harris Wofford, calling health care "a basic right," upset former Attorney General Richard Thornburgh in a Pennsylvania Senate race. Now, nearly every candidate is peddling a fix-it plan. Stokes Aetna Life Insurance Co. President Ronald E. Compton: "Health care is a growth industry for politicians."

That's because health care is a growing burden for everyone. In 1991, the nation's medical bill rose an estimated 10%, more than three times the overall inflation rate. Although that was the smallest percentage increase since 1987, health care spending as a share of gross national product rose 0.3 points, to 12.5%, and this year could hit 13%. The biggest health care buyers—government and business—are frustrated. So are employees, who are shouldering more of the burden. And some 34.7 million Americans remain uninsured. Dr. James S. Todd, executive vice-president of the American Medical Assn., worries about "a medical meltdown."

What will be done to avoid that—and by when—isn't clear. President Bush is expected to unveil his reform proposal in his State of the Union address this month, but he won't push it until 1993. Meanwhile, business coalitions, health groups, and politicians are battling over some 50 other reform plans, ranging from Canadian-style socialized medicine to proposals for tax credits and other incentives for those who shop for the best medical bargains. The pressure for sweeping change may build to uncontainable levels in 1992, and that's unsettling for a medical establishment that already has huge problems.

SHORTER STAYS. For instance, 1992 will be another tense year for the nation's 6,700 hospitals, which soaked up about 38¢ of every health care dollar spent in 1991. After years of double-digit cost increases, the industry got relief last year, when growth in its labor costs slowed. After falling for most of the '80s, net margins at hospitals rose slightly in 1991, to 5.4%, and should grow even more in 1992.

Still, hospital admissions continue to fall, with 1991 occupancies averaging 65%, the lowest level since 1986. This hurt profits at even the biggest chains. Humana Inc. in Louisville, which operates 80 hospitals nationwide, stunned analysts late in the year by forecasting flat first-quarter earnings. It blamed a 1% drop in September and October admissions. Wall Street knocked \$4, or nearly 15%, off Humana's stock price, which has continued to fall. Dean Witter Reynolds Inc. analyst Todd B. Richter, who remains optimistic that Humana will funnel more patients into its hospitals, has cut his 1992 profit estimate by 2%, to \$2.50 a share.

One trend hurting hospitals is an increase in outpatient surgery and rehabilitation. Dallas-based Medical Care International Inc., the nation's largest operator of outpatient surgical centers, handled 12% more cases in the

first nine months of 1991 than a year earlier. Analysts figure that its 1991 earnings rose 29%.

Traditional health insurers also are on the defensive. Several reform proposals would make the federal government the primary buyer of health care, reducing or even eliminating the private insurer's role. "The industry is under threat," says Carl J. Schramm, president of the Health Insurance Association of America. Indeed, insurers' profits will shrink this year, most likely by double digits, analysts say, as more corporate clients look for cheaper plans. Insurers' attempts to compensate—in some cases with 20%-plus premium increases—will drive away more customers.

One beneficiary could be health maintenance organizations, the huge medical groups that provide lower-cost care. Last year, their total membership rose 15%, to 38.4 million patients, estimates Health Care Investment Analysts Inc. But the low rates that bought market share for HMOs also are hurting their earnings. Overall, HMO income is expected to fall to \$350 million this year from \$850 million in 1991. This will happen despite a 14% increase in premiums, according to a survey by Hewitt Associates, which should be modest enough to let HMOs woo even more business.

HOME CARE. Medical-equipment suppliers will do even better. Earnings in that \$23 billion industry are expected to rise 25% this year, according to analyst Rachael Scherer at Dain Bosworth Inc. in Minneapolis. All the big hospital suppliers—Abbott Laboratories,

Baxter International, and Johnson & Johnson—should have healthy gains, generated in part by products and services that cater to cost-conscious customers. For instance, Caremark Inc., Baxter's \$800 million home health care unit, now gives intravenous treatments at home to those who otherwise might have to be hospitalized.

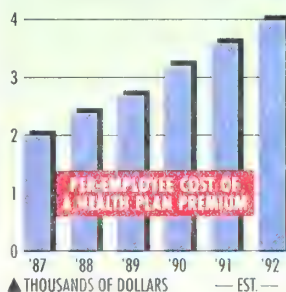
The group that could have the toughest year is the nation's 450,000 practicing physicians, whose mean income rose 6% in 1991, to \$164,000. A new Medicare payment schedule that took effect on Jan. 1 cuts fees for specialists, but pays family physicians and internists more, an attempt to treat the two more equally. And doctors everywhere will get increased scrutiny from health care purchasers seeking better quality. "Higher quality means lower costs," says William Goss, manager of health care programs for General Electric Co., which spends about \$800 million a year on employee health care.

GE, along with dozens of other companies, is participating in a national data bank set up by Dr. Paul Ellwood's Interstudy, a Minneapolis think tank, to track the treatment of millions of patients. By this fall, employers may begin evaluating the data, in hopes that it will help them choose the best providers. So from now on, like it or not, health providers are going to live under a microscope.

By Julia Flynn Siler in Chicago, with Susan B. Garland and Paula Dwyer in Washington



MEDICAL COSTS WILL RISE AGAIN



DATA: FOSTER HIGGINS, BW ESTIMATES

STILL SHAKY, EVEN AFTER THE SHAKEOUT

With fewer airlines flying, fares will rise and profits return. But nobody can say just when that will be

Ask most airline executives what they expect this year, and you'll get a weary shrug. "As every day goes by, you begin to wonder how good your numbers are," says John C. Pope, vice-chairman of United Airlines' parent UAL Corp. "You turn up your hands and say: 'Who knows?'"

That's the question of the year for 1992. In the 18 months since the economy soured and the gulf war wreaked havoc on airline traffic, the industry has bled a frightful \$4 billion-plus. Three major carriers—Eastern Air Lines, Pan Am, and Midway Airlines—have failed. Three others—Continental, TWA, and America West—are in default or bankruptcy. More than 57,000 people have been laid off. And airline shareholders have watched nearly \$2 billion of their paper wealth evaporate in the stock market. Many analysts think the industry may actually turn a profit in 1992—if the economy resurfaces as early as the second quarter. But the carriers themselves don't seem to be betting on that.

"We see no prospect of a near-term recovery," says Donald J. Carty, executive vice-president for finance and planning of American Airlines' parent, AMR Corp. Says United's Pope: "Things were so bad it will take [the business] a long time to come back." United estimates that its 1991 loss topped \$230 million, more than double its previous record loss. And Pope expects no letup in the first quarter. At USAir Group Inc., Chief Executive Seth E. Schofield puts his 1991 loss at \$500 million. He isn't counting on profits again until 1993's second quarter.

Of course, the airlines will eventually rebound. Most experts argue that the recession and the war simply accelerated an industry shakeout that began with deregulation back in 1979. Now, they say, hard times are finally forcing out marginal players and excess capacity. As kamikaze discounters fail, the carriers that remain will absorb their traffic. Eventually, fares and profits will rise. "The rockier it gets"—and the more carriers that disappear—"the better it looks for the survivors," says analyst Timothy P. Pettee of Alliance Capital Management.

HEADWINDS. Wait a minute. Does it make sense to cheer for a continuing recession just to flush out weak airlines? Not everyone buys that argument. "I'm sure the carmakers figured they'd be in Fat City as soon as Packard and Studebaker got out of their way," says American's Carty. Indeed, the fascination with potential winners and losers obscures some important, longer-range consequences.

For one thing, even the winners will be scarred by the storm raging through the business. United, American, and Delta have incurred total estimated operating losses of \$1.2 billion over the past two years—prompting American to cut \$8 billion out of its five-year

capital-spending plan. Meanwhile, the three have loaded up on debt. Add in off-balance-sheet airplane leases, and each has a debt-to-capitalization ratio topping 75%, figures Phillip Bagga-ley of Standard & Poor's Corp. That's up from about 65% in 1986, adding financing costs that hurt earnings.

Other expenses are piling up, too. Fuel prices are down—a major relief—but costs from maintenance to travel-agency commissions are rising fast for the Big Three carriers. Most troublesome are labor costs, an airline's biggest expense. In the past year, United, American, and Delta all succumbed to union demands and hiked their pilot rates to new highs. United's, for instance, will climb 30% over the next three years, its union calculates. Says American's Carty: "In this last set of contracts we didn't do an adequate job"—partly because pilots were threatening to strike.

Long term, the consequences of a shakeout will be sobering for customers, too. For all their balance-sheet excesses, low-cost airlines such as Continental and America West have kept the pressure on the likes of United, American, and Delta to keep fares down. Continental's uncharacteristic December initiative to raise prices \$20 per round trip—a move quickly followed by the other majors—shows that fares will rise eventually

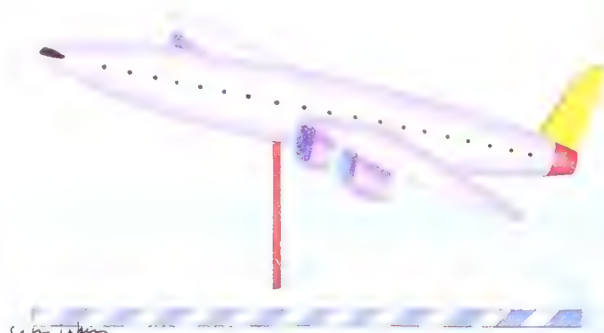
to make room for profits. And as low-cost carriers fail, pressure to rein in expenses may ease, too. Says First Boston Inc. analyst Paul P. Karos: "It'll be real tough from now on to keep pressure on costs."

BANKING HARD. For its part, the financial community is doing its best to accelerate the shakeout. After years of easy money, distressed carriers can't raise a dime these days. And even likely survivors, such as USAir and Northwest, have seen the cost of their borrowings double recently. Compare that with the love affair between the capital markets and the strong carriers. United, American, Delta, and Southwest issued more than \$8 billion in debt and equity during 1991.

This will let the big carriers grab even more turf. They are already sweeping into Europe and Latin America, using routes and planes bought from weaker airlines. And although expansion is another drag on earnings short term, international markets are where the best growth will be in the years ahead. With an entire country of travelers to draw on, United, American, and Delta eventually could make loads of money flying overseas.

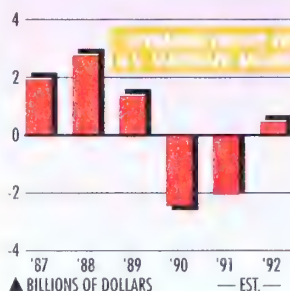
For now, though, they're bracing for a cold, cold winter. Acknowledging as much, American in mid-December slashed some of its fares across the Atlantic to spur traffic. The storm may be abating for the airlines. But the winds haven't stopped blowing yet.

By Michael O'neal in New York



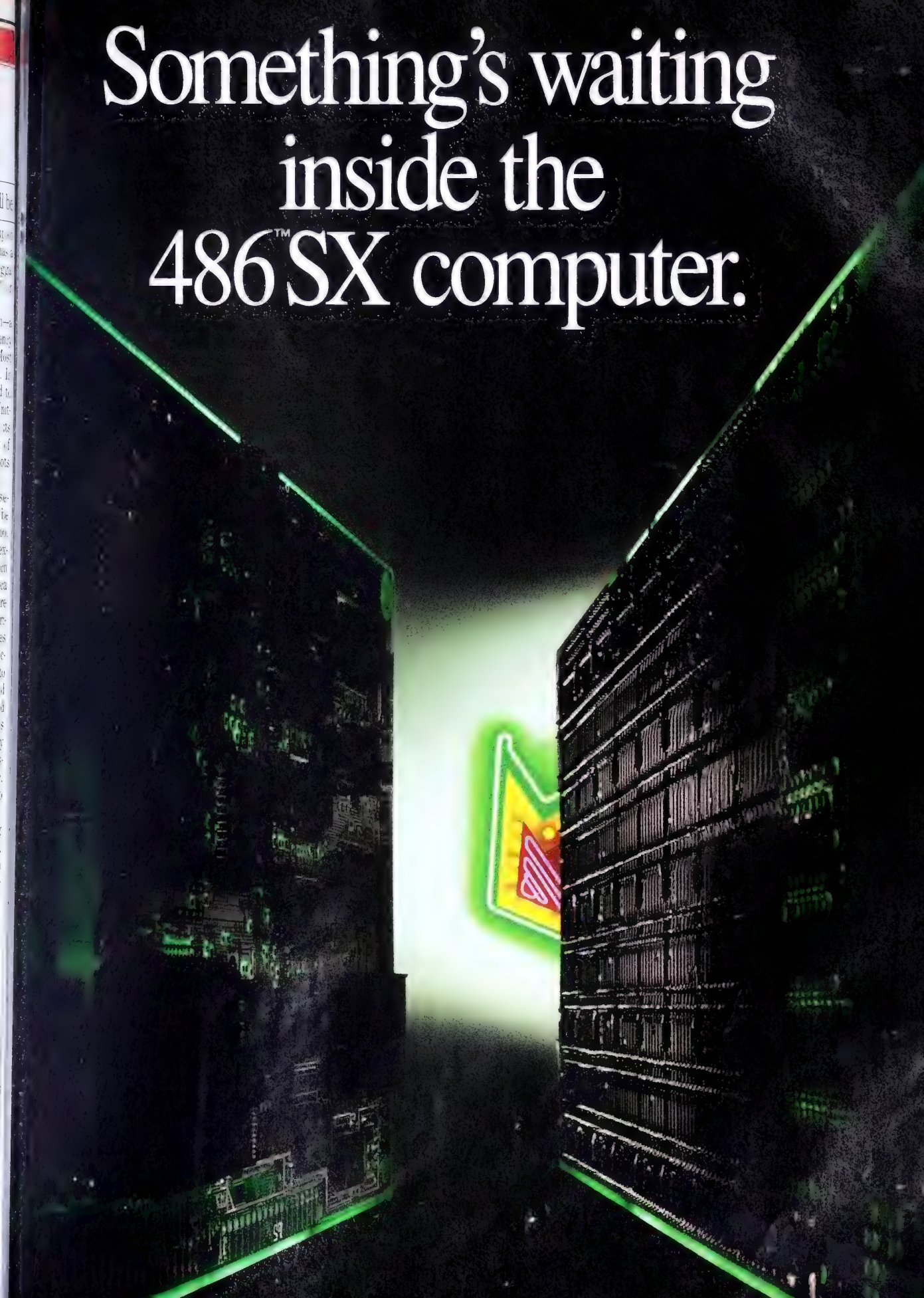
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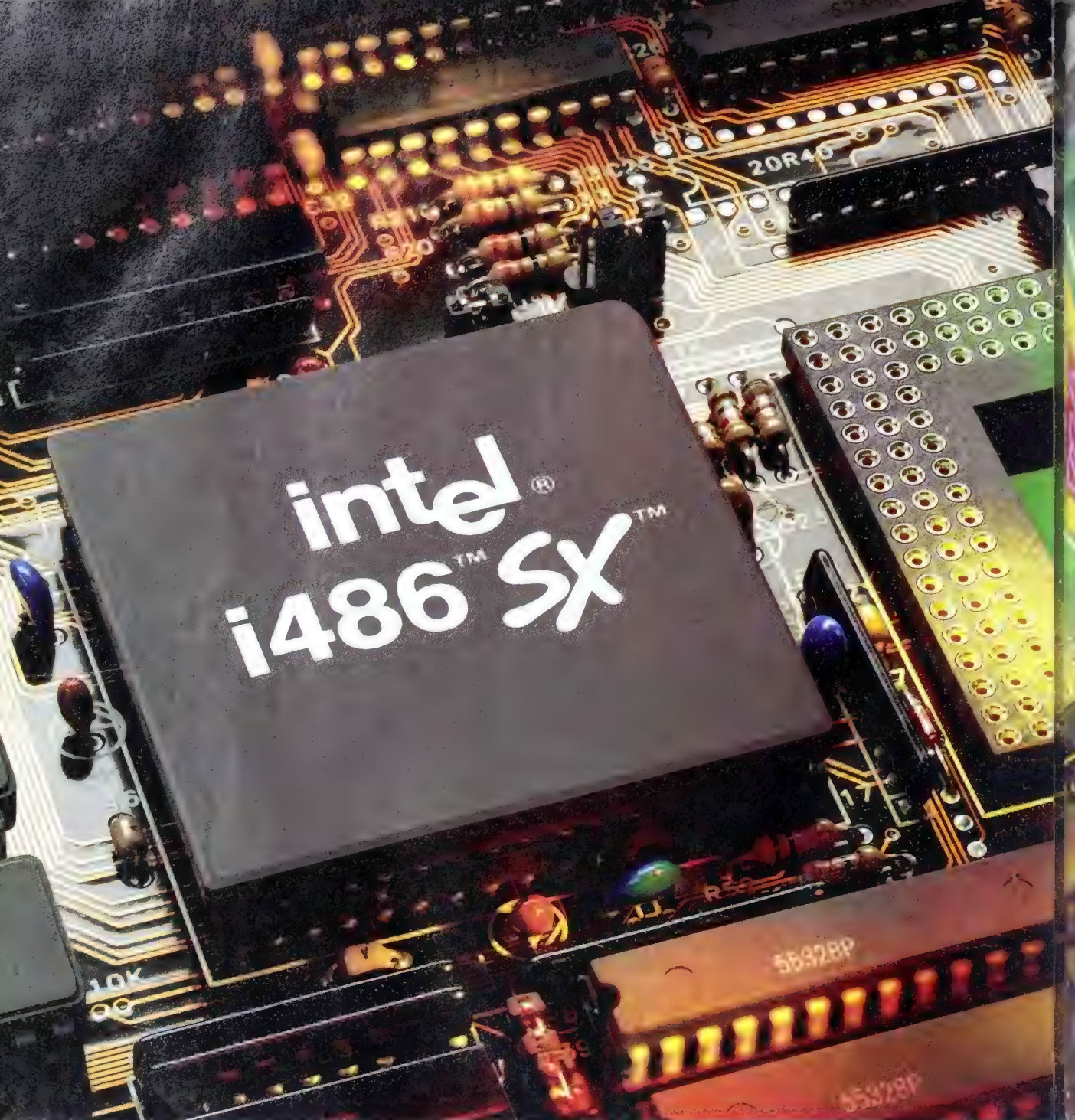
PROFITS AT LAST FOR AIRLINES?



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WHAT'S FOR DINNER? HUMBLE PIE

On the recession-wracked industry's menu: Lower prices and more nutritious fare

Forecasters who view the \$262 billion food-service industry as an economic bellwether won't like what they see this year. The National Restaurant Assn. expects the industry's inflation-adjusted sales to inch up about 1.8% in 1992. That's better than last year's 0.5% gain, but still no cause for glee. "It's a very difficult environment out there," frets Ronald A. McDougall, president of Brinker International Inc., which operates 261 Chili's eateries.

Indeed, thousands of restaurants have closed in the past few years. More startling, the total number of U.S. outlets has been sliding since it reached a peak of 379,000 in 1989. "You'd probably have to go back to the Depression to find the last time we had back-to-back declines in unit growth," says Peter H. Oakes, vice-president at Merrill Lynch, Pierce Fenner & Smith Inc. This year will be the third drop in a row, with the number of establishments falling to about 269,000, according to Restaurant Consulting Group Inc. in Evanston, Ill.

White-tablecloth restaurants and independent operators have been hit hardest, but no segment of the industry has escaped the pain. The 66 upscale, steak-and-seafood restaurants operated by Chart House Enterprises Inc. averaged a sales decline of 3% in 1991. Buffeted by the weak New England economy and aggressive competition from the Bertucci's pizza chain, Pizzeria Uno suffered a 1991 earnings decline of 16%, to \$3.2 million, on revenues of \$20.2 million. And, following a \$9 million write-off in the third quarter for the delayed rollout of KFC's new skinless chicken product, PepsiCo Inc. is expected to take an additional pretax charge of \$50 million or so in the fourth quarter, mainly to cover layoffs in its lackluster chicken business.

HEARTY FARE. Not surprisingly, the companies with the most debt are in the most trouble. A case in point is Gilbert/Robinson Inc., which operates 104 Houlihan's, Darryl's, and other specialty outlets. With \$190 million in debt, and just \$34 million in cash flow on \$300 million in annual sales, it filed for Chapter 11 bankruptcy protection in November. The company hadn't missed interest or principal payments but had slipped into technical default on some loans. It also faces accelerating debt payments, which preclude investments in new and existing units. That's a recipe for "a steady spiral down," says President Frederick R. Hipp. He says Gilbert/Robinson will submit a reorganization plan by May that will seek to stretch out its repayment schedule.

Analysts say a number of companies will do better than the average this year, among them Chili's, Buffets Inc., and Cracker Barrel Old Country Store. These serve hearty portions at reasonable prices and are popular with baby-boomer families. Other chains are prospering, too. The soaring stock market prompted IHOP, Ground Round, Bertucci's,

Sonic Industries, and Checkers Drive-In Restaurants to go public last year, and their shares have generally gone up.

Still, restaurants will need a smorgasbord of strategies to attract and keep an increasingly demanding clientele. Eateries of all stripes are adding items to please the nutritionally conscious. Some are going in the opposite direction. Wendy's International Inc., for one, is hawking Dave's Deluxe, a burger smothered with bacon, sauteed onions, and cheese, and named for its founder, Dave Thomas. Says Wendy's Chairman James W. Near: "People need to have a choice."

This year, "the common theme that transcends all [industry segments is delivering value," says Simon Crawford-Welch, professor of hospitality at the University of Nevada, Las Vegas. At its most basic, this means price. So, cheaper menus are becoming fixtures at such giants as McDonald's, Taco Bell, and Wendy's. California Pizza Kitchen offers a cheaper half-portion of a popular salad. And, in part to accommodate children, it has cut prices on its plain cheese pizza and pasta with tomato sauce. Such changes may hurt earnings. Chicago-based Technomic Inc. figures that net margins for the 82 largest public restaurant companies will fall to 5.5% this year, from 6% in 1991.

TAXES ON TIPS. Despite the competitive environment, plenty of chains are expanding many overseas. Wendy's, back on track after a five-year turnaround, plans to open 250 new units around the world in 1992. Sbarro Inc., which operates some 530 fast-food Italian restaurants, is growing with the aid of foreign partners. One of them, Trusthouse Forte PLC, Britain's largest hotel operator, will help the Commack (N.Y.) company establish 100 units in Britain over the next eight years.

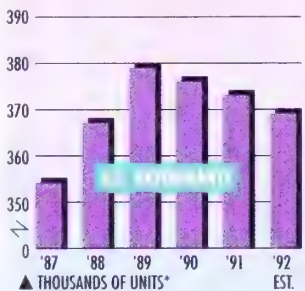
They might expand faster, restaurateurs say, were it not for rising taxes and mandated employee benefits. The industry is keeping tabs on Capitol Hill efforts to fashion a national health-insurance plan. And it is launching a push for the repeal of a 1987 law requiring restaurants to pay social-security taxes on a share of their workers' estimated tips. Restaurants say this is unfair because they can't count the same tips toward their minimum-wage obligations. By 1998, such taxes will cost Chili's some \$12 million, money it says would pay for adding eight units, each employing 100 people. The company plans to open 50 new outlets in 1992, anyway. But, warns Brinker McDougall: "You tax us hard enough, you're going to slow down new restaurants and jobs."

Even as the industry lobbies for relief, it is finding ways to keep a lid on costs. Two of its biggest expenses, labor and raw materials, should rise no faster than inflation in 1992. In a year of economic uncertainty and unrelenting competition, that will be no small help.

By Lois Therrien in Chicago



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DATA: RESTAURANT CONSULTING GROUP INC.

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POWER SURGE AT THE PLANT

Conservation is aiding bottom lines, and low interest rates could spur construction

As he ponders the changes sweeping the once stodgy electric-utility industry, James E. Rogers Jr. recalls what Robert S. Strauss, his former law partner and the last ambassador to the Soviet Union, once advised. Paraphrases Rogers, chairman of PSI Resources, Indiana's largest utility: "You can let the parade walk over you, or you can jump in front and pretend it's your parade."

Heading into 1992, a number of utilities are deciding it's their parade. True, they face big challenges: a 20-year, \$105 billion tab for meeting beefed-up U.S. pollution standards, the need to add huge amounts of capacity later this decade, and a bitter internal split over the wisdom of efforts to amend federal laws and open the industry to competition.

What's different from even a year ago is that many utilities think they're finally getting a handle on things. Falling interest rates have improved the outlook for financing new plants. A new generation of top utility executives relishes competition. And the industry points with pride—not bitterness—to the \$2 billion it is spending annually on conservation. Utilities are even in favor of technologies, such as microwave clothes dryers, that could trim overall energy bills. "Electricity is poised to take care of the three E's—efficiency, the economy, and the environment," boasts Thomas Kuhn, president of the Edison Electric Institute (EEI), the industry's lobbying group. "We have a chance to be the good guys."

SMART BULBS. Nowhere is this more evident than in conservation. Regulators in 19 states now let utilities earn returns on money spent on such programs, so they're doing everything from giving away fluorescent light bulbs to subsidizing purchases of more efficient industrial equipment. Conservation also helps postpone building plants at a time when many utilities are still paying for nuclear units built in the '70s and '80s. That's crucial: The average utility's credit rating is a low A, the worst showing in 20 years. U.S. utilities, the EEI reports, may meet 15%, or 248,000 megawatts, of expected new demand in the 1990s via conservation.

Utilities also start this year with a better idea of how to deal with 1990's revised Clean Air Act. Last October, the Environmental Protection Agency released preliminary rules on meeting acid-rain provisions. These won't be final until May. But operators of the 110 coal plants affected by the 1995 Phase I deadlines now have a framework for choosing between buying scrubbers or switching to low-sulfur coal, says Debra G. Coy, an analyst at County NatWest Securities Corp. in Washington. Many are choosing scrubbers: Orders hit \$2.6 billion in 1991, up from \$500 million in 1990, reports McIlvaine Co., a pollution-control consulting firm in Northbrook, Ill.

Diving interest rates will help utilities make such purchases, refinance debt, and nudge

1992 return on equity to 11.4%—vs. 11.2% last year—predicts analyst Daniel Scotto at Donaldson, Lufkin & Jenrette Securities Corp. Still, facing rising costs, utilities will consider mergers or acquisitions to gain efficiencies. One pending merger, between Kansas Power & Light Co. and Kansas Gas & Electric Co., will save \$140 million a year in operating costs, says M. Douglas Dunn, head of the utility group at Milbank, Tweed, Hadley & McCloy, a New York law firm. More deals lie ahead. Dunn adds: "We're working on projects on both coasts and in between."

As heretical as such moves seem to old-timers, they're nothing compared with what may be next. In 1992, Congress may amend laws governing how and by whom power is produced, transmitted, and sold—moving the regulated industry toward a market-based system. One disputed idea would make utilities open their transmission lines to anyone selling power. But the first fight will be over an amendment to the Public Utility Holding Company Act of 1935 (PUHCA), which governs how plants that burn conventional fuels are regulated.

BURNING ISSUES. Today, a company that controls 10% or more of such a plant and operates in more than one state faces strict oversight by the Securities & Exchange Commission, which sets safeguards on financing new facilities. The only exemptions are plants that use alternative fuels such as solar energy or wind. Operators of conventional plants can skirt the rules by taking on at least nine other partners. But this is such a hassle that few companies have done it. Until this rule is changed, some experts say, fewer power plants will be built than otherwise might be, inhibiting competition between utilities.

Maybe not for much longer, though. National energy legislation, which died in Congress last year despite Administration backing, would have junked the 10% rule. A revised package, due out in early 1992, will seek to do the same. This will draw fire from some, such as Houston Lighting & Power Co. Chairman Don D. Jordan. He argues that unregulated competitors

could borrow nearly the entire cost of a new plant vs. the 50% equity that regulated utilities must put up. This added risk, he says, could make them unreliable sources of power.

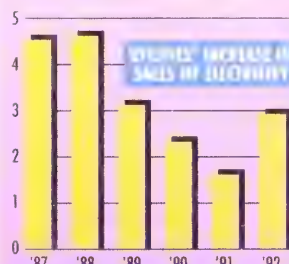
Others downplay his concerns, arguing that cheaper power is worth the gamble. Besides, they claim, state commissions won't approve contracts between regulated utilities and independent producers that are financially unsound. "We need to reform ourselves," says PSI's Rogers. "The best way to do that is to inject competition" into the industry.

The betting is that reforms of some sort will pass. And if not this year, then soon. So for utility executives in 1992, stepping to the front may well be the best move.

By Robert Buderer in Boston



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DATA: NATIONAL ECONOMIC RESEARCH ASSOCIATES INC.

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PROFILE

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'MAYBE THE RECESSION WAS A WAKE-UP CALL'

Studios have cut back, networks have laid off hundreds, and Hollywood is newly austere—relatively

Porsches still sell in Beverly Hills. And no one is taking up a collection for CBS Chairman Larry Tisch. But more than a few Gucci belts were tightened in the entertainment business in 1991 as the excesses of an overindulgent past caught up with Hollywood movie moguls and their three-piece-suited network counterparts back East. CBS Inc. suffered huge losses on its \$2 billion in contracts for baseball and football broadcast rights, while Sony Corp.'s Tri-Star Pictures Inc. unit released the turkey of the year, the \$50 million *Hudson Hawk*. "It was all pure folly," says Fox Inc. Chairman Barry Diller. "Maybe the recession was a wake-up call."

By all accounts, an awakened entertainment industry will do better in 1992. Beset with disappearing advertisers and sports-program losses, the Big Three TV networks ordered hundreds of layoffs last year, played hardball with spendthrift producers, and returned parts of their program schedule to affiliates.

OLYMPIC RECORDS. Now slimmer, the networks should be better able to cope with still-weak advertising in the first half of 1992. And Hollywood, known for its outsize spending binges, may decide to reform. It has had two straight less-than-boffo years at the box office, and growth has turned sluggish in video and overseas sales. The Polo Lounge crowd may still put up \$50 million for an occasional Arnold Schwarzenegger flick. But for the first time in 20 years, film production budgets in the U.S. are heading down, even if only slightly.

In TV land, the Olympics and a Presidential election, a potent combination in the past, should help boost network ad spending by 6%, to \$9.5 billion, says McCann-Erickson Co. Senior Vice-President Robert J. Coen, vs. a 5% decline in 1991. He sees nearly double-digit growth for cable and syndicated TV advertising this year. But CBS spent \$243 million on rights for the Olympic Winter Games in Albertville, France, while NBC laid out \$401 million for the Summer Games in Barcelona. Having paid too much, neither will get a gold medal for its bottom line. Ten weeks before the Feb. 8 start of the Winter Games, CBS had 17% of its ad time left to sell. "What good are the Olympics if you can't make money on them?" asks John Reidy, media analyst at Smith Barney, Harris Upham & Co.

Still, Reidy figures that the Big Three, without costly war coverage, will fare somewhat better than in 1991. He says CBS, which took a \$322 million charge against earnings for its sports contracts, lost \$100 million last year. In 1992, he adds, it could break even. NBC, which lost an estimated \$60 million in 1991, also could break even this year despite lower ratings, Reidy calculates. With smaller sports contracts, ABC Inc. earned \$120 million to \$130 million last year and will make up to \$160 million in 1992, he says.

The other good news for the Big Three is that, at least for now, viewers have stopped

switching to cable TV, home video, or syndicated programs. Last year, 64% of U.S. households spent their evenings watching network television, about the same as in 1990, according to Nielsen Media Research. The Big Three will hold their share again this year, predicts New York investment banker Veronis, Suhler & Associates Inc. Only the four-year-old Fox network should boost its 22% viewership—by adding two nights to its current four-night schedule. "This may be a down market for some, but not for us," says Diller. He says his youth-oriented network earned some \$50 million in 1991 on nearly \$500 million in sales.

The slower growth in alternative viewing isn't good for Hollywood. Studios make more money now from video than at the box office. But after growing at a double-digit pace for the

past six years, sales of films on videocassettes will rise 9% in 1992, to \$12.6 billion, predicts the Veronis Suhler report, as fewer homes buy VCRs. Add in a 7% drop last year in box-office revenues, to \$4.7 billion, and Hollywood will have to keep cutting production costs that have more than doubled in a decade.

In fact, a year after Walt Disney Productions Chairman Jeffrey Katzenberg's memo railing against "run

away costs and mindless competition," major cutbacks are under way. Paramount Pictures Corp. laid off more than 100 staffers last year, and Fox cut its film output to 14 from a planned 24. Disney's average film budget was slashed from \$24 million to \$16 million in 1990.

A cloud over the cost-cutting parade this year is a possible strike this summer by the Screen Actors Guild. And, because filmmakers can't pass up a shot at a blockbuster, some big budget films will still be made. The most eagerly awaited Warner Bros. Inc.'s \$70 million *Batman Returns*. Warner will also trot out *Lethal Weapon 3*, Fox will premiere *Alien 3*, and Sony's Columbia Pictures will open the \$50 million *A Few Good Men*, starring Tom Cruise and Jack Nicholson.

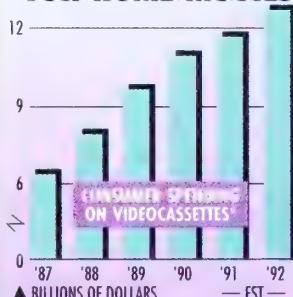
Not all the fun will be on the screen, as backroom dealmaking could provide tabloid fodder. Weary of so-so results at NBC, General Electric Co. apparently wants to unload it. One

stumbling block: the Federal Communications Commission's refusal to lift a 21-year restriction on mergers between networks and studios, the likeliest network buyers. GE plans to try again to persuade the FCC that such mergers aren't anticompetitive. It is said to have at least one potential buyer for NBC: Paramount Communications Inc. Other deals could involve ailing studios Orion Pictures Corp. and MGM-Pathe Communications Co. Foreign investors, including German entertainment giant Bertelsmann and the Netherlands' Polygram, are said to be interested. For such Hollywood ingenues, the idea of owning a piece of *Rocky* or *Dances with Wolves* may be too enticing to pass up.

By Ronald Grover in Los Angeles



MODEST GROWTH FOR HOME MOVIES

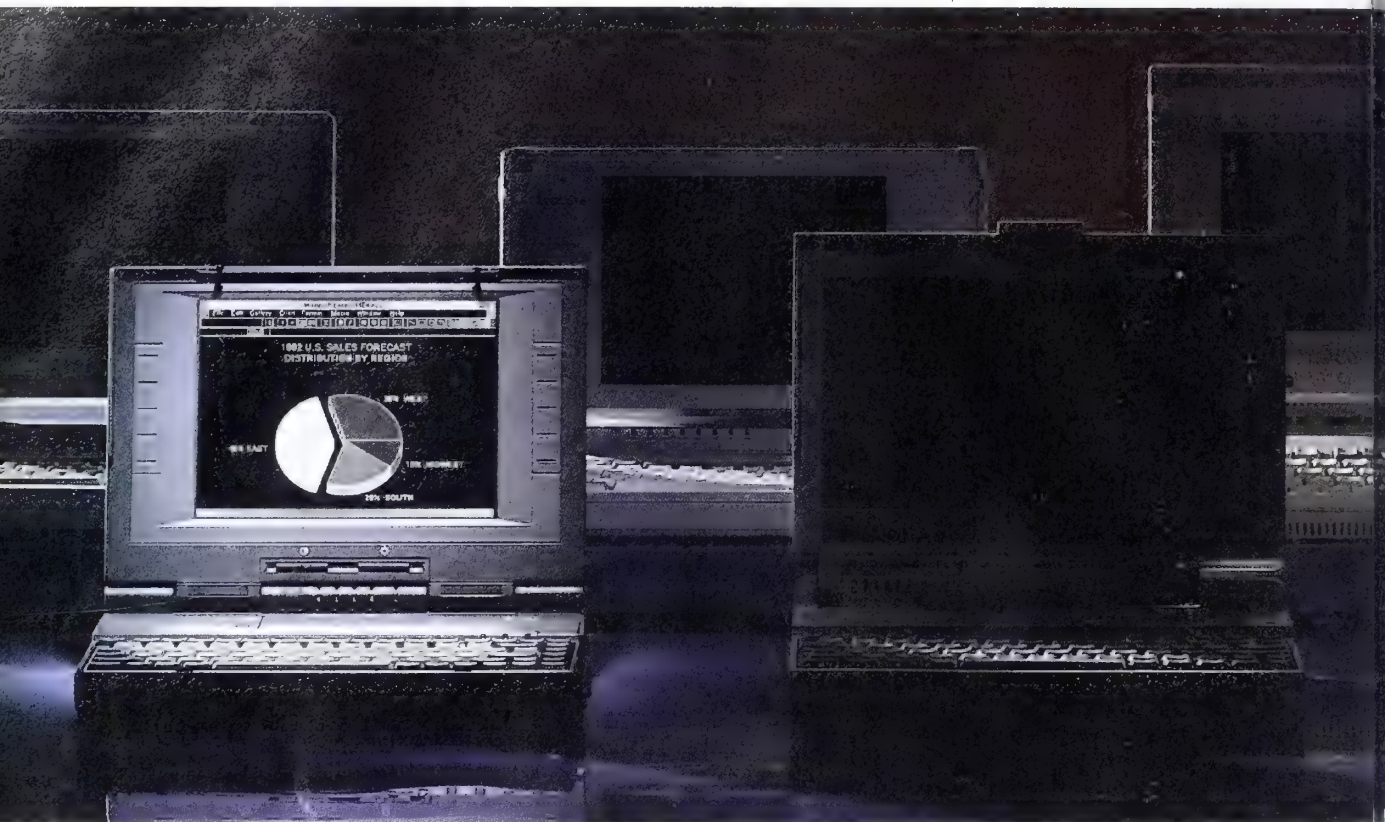




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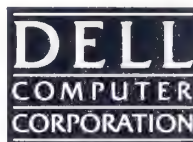
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FROM MAINFRAMES TO CLONES, A TRICKY TIME

1992 will bring turmoil and layoffs—but a more competitive industry could emerge

Perhaps the most popular characterization of the U.S. computer market in 1992—and easily the kindest—is that it will be a year of transition. Suppliers at every level, from giant IBM to tiny PC clone makers, will be adjusting in any way they can to the industry's rapidly changing economics. They will be shedding employees by the thousands, killing off marginal product lines, and teaming up to share costs. Industry revenues will grow about 6%, up from last year, but still short of the 10% or more in previous years, analysts say.

The painful but unavoidable fact is that an increasing majority of computers today are nothing more than small, cheap, high-volume commodities, composed of a mere handful of microchips and a core set of standard software, built using a tiny amount of labor. That's the main force that is halting revenue growth in traditional mainframes, driving profits to rock-bottom levels and forcing manufacturers to emphasize higher-margin software and services.

Among the latter: help in designing and building networks and taking responsibility for all of a customer's data processing activities under a fixed-fee contract—so-called outsourcing. Indeed, those two service sectors will be a bright spot this year, growing 10% or more, to about \$18.8 billion in combined revenues.

Other factors, too, are holding back hardware sales. Among them are a lack of software standards for creating industrial-strength networks and reduced capital spending. Analysts say that Congress could help boost capital spending a little by bringing back the investment tax credit. In fact, analyst Marc Schulman at UBS Securities in New York knows customers who decided not to buy computers last year on the chance that the lawmakers will act this year.

COST CUTTING. In the absence of such a move, data processing budgets at large corporations will be up only 3.5% over 1991, vs. a projected 5.3% gain a year ago, according to a survey by IDC Index Inc., a Cambridge (Mass.) management consulting firm. The largest investments will be for systems to improve order processing, customer service, and product delivery.

In mainframes, revenues will probably be down some 3.3% this year, despite a major new-product cycle kicking in for mainframe leader IBM, according to market researcher Dataquest. IBM's large ES/9000 processors enjoyed fairly strong bookings through the fall and into early 1992. But orders look weak heading into the middle of the year, and heavy price discounting is rampant. One cause: Big Blue hasn't differentiated its new machines particularly well from earlier models, which often can supply the same computing power for half the price or less.

In midrange computers that sell for about \$50,000 to \$1 million, revenues won't be up more than 2% this year, says Dataquest. IBM's AS/400 and Digital Equipment Corp.'s VAX remain the two strongest sellers, but both face stiff competition from desktop machines.

Desktop sales will grow 25%, predicts Data-

quest, with competition in that arena as fierce as ever. Workstation companies, such as Sun Microsystems, DEC, IBM, and Hewlett-Packard, will again play technological leapfrog as each launches machines based on the latest microprocessors. In PCs, prices will continue to fall, and suppliers will seek out new, high-volume distribution channels. The market will start to move to Intel's speed-of-sound 486 microchip, and everyone will be watching IBM's newly formed desktop computer unit. Overall, PC dollar sales may increase just 8.5%, compared with 12%-plus in recent years.

If one trend will distinguish 1992 from past years, it's the big move to client-server networks. These let desktop computers, or clients, share more powerful server computers that store masses of data, crunch numbers, and handle other specialized work. The economics of such setups are compelling, because the hardware's cost can be a tenth of that for a mainframe designed to do the same work. What's more, customers can expand such networks relatively easily, simply by adding extra computers as needed.

NO GLUE. But what is still missing, for the most part, are programs to hold the networks together and to apply them to business problems. PCs, which are beginning to challenge work-

stations in hardware power, still lack the basic software—or operating system—needed to deliver full client-server functions. Customers using IBM-compatible PCs, for instance, are faced with a choice between installing Microsoft Corp.'s Windows 3.0 package now, waiting a few months to get IBM's OS/2 2.0 program, or waiting a bit longer for an all-new Microsoft package, Windows NT. They also can choose Sun's Solaris package, a version of AT&T's Unix operating system.

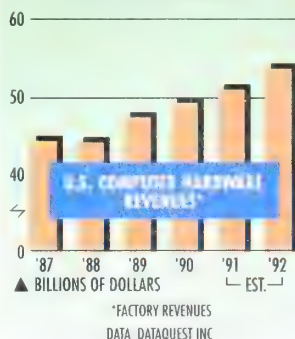
What customers want most, it seems, is to get machines of all brands, shapes, and sizes to interact effortlessly. And 1992 may see the start of just such a lovefest, as suppliers begin delivering software that adheres to a set of standards defining the so-called Distributed Computing Environment (DCE). Worked out by the Open Software Foundation, a consortium of suppliers including IBM, DEC, and HP, DCE defines the software plumbing needed for multisupplier networks. Also helping will be a new set of rules called Object Request Broker (ORB), endorsed by another industry consortium, that defines how different systems can share programs and complex data such as graphics and video. Together, DCE and ORB should help make client-server networks as easy to program as a single, self-contained computer.

From all the turmoil expected in the computer business this year, a leaner, more competitive, and potentially more profitable industry should emerge. If the economy picks up in the second half, computer makers could enjoy 10%-plus revenue growth in 1993—a first since 1988. That might make 1992 worth the struggle it promises to be.

By John W. Verity in New York

SHRINKING DATA PROCESSING BUDGETS WILL HELP DESKTOP COMPUTERS AND SERVICES

A BETTER YEAR FOR COMPUTER MAKERS



DO THE CHIP INDUSTRY PROTEST TOO MUCH?

Although it craves a banner year, predicted growth of 7% to 16% isn't peanuts these days

In most industries, double-digit growth in the midst of a recession would be a cause for celebration. But semiconductor makers don't feel blessed. Revenue growth in their \$55 billion industry has averaged 7% annually over the past three years, and chipmakers have been looking for the boom that they traditionally enjoy every four years or so.

Last summer, forecasters thought it would come in 1992, in the form of a 20%-plus increase in worldwide sales. Lately, however, the estimates have been scaled back to a range of 7% to 16%. The consensus falls around the 12% predicted by analyst Daniel L. Klesken at Prudential Securities Inc. It seems that new chip products, a revitalized computer market, and a voracious thirst for semiconductors in everything from cars to elevators can't entirely offset the stagnant U.S. economy.

"In mid-August, the phones stopped ringing," says T.J. Rodgers, chairman of Cypress Semiconductor Corp. "It is entirely possible," adds John H. Beedle, president of In-Stat Inc., a market research firm, "that 1992 will be the third year of crummy growth for the industry." Most chipmakers are trimming their sails. Texas Instruments Inc., for example, cut its planned capital spending last year by 13%, to \$500 million, and is just now deciding how much to reduce its 1992 outlays. "Our outlook [on growth] has become 'don't count on it,'" says Walden C. "Wally" Rhines, executive vice-president for TI's semiconductor group.

NOMADS. Not everyone is so gloomy. W.J. Sanders III, chairman of Advanced Micro Devices Inc., believes 1992 "is going to be a great year for the semiconductor industry." It certainly may be for him. His company's AMD386 microprocessor, a cheaper clone of the wildly popular personal-computer "main brain" made by Intel Corp., is selling beyond even Sanders' rose-tinted expectations. Sanders also thinks that the U.S. economy will catch fire by the second half. "There is going to be a recovery," he declares. "There always has been [in an election year], and there will be again this year."

There are other currents driving the industry besides gross national product, of course. Otherwise, no one would predict even 12% growth. Some 45% of semiconductor sales are to computer makers, and the computer industry is entering new product cycles that are likely to increase chip demand, if only modestly. For instance, "nomadic" models are a hot item right now. These machines, which include laptops, notebooks, and other portable personal computers, will account for nearly one in five PCs sold this year, according to International Data Corp. Companies such as AMD and Intel, whose chips efficiently use battery power, will benefit enormously from increased sales of the nomads.

Intel should benefit, too, once sales take off

for PCs based on its latest microprocessor, the 486. Prudential's Klesken is predicting 223% growth for the zippy chip, to 5.5 million units in 1992. Its list price ranges from \$333 to \$644, and right now Intel has the market all to itself. AMD aims to deliver a clone in 1992. And a skyrocketing market for 486-based computers would also be good news for memory chip makers, because the powerful new machines typically will sell with four times the memory of a 386-based PC. That mainly will benefit the big Japanese companies that specialize in commodity memory chips. But it should also mean increased sales for U.S. memory makers, including Micron Technology Inc. and TI.

'LITTLE DROPS.' Chipmakers also are looking past computers for growth this year and beyond. Sales of cellular phones and other wireless communication devices are growing at a healthy annual clip of 45%, which will benefit producers such as Motorola Inc. "People want [these gadgets] for their wives and for their kids," says Charles E. Thompson, worldwide marketing director for Motorola's chip operations.

And the auto industry, though on the skids, is expected to buy more chips this year. In fact, semiconductor companies say they're getting bigger orders than ever from Detroit. Back in 1975, the average car contained only about \$10 worth of semiconductors. Today's computers contain an average \$200 worth, says Thompson. And that figure could more than double by 1992. Motorola is a big player in this market, too.

Several niche products have the potential for huge growth in 1992, because they displace conventional magnetic data storage media. For example, a number of companies now ship telephone answering machines on a chip. This does away with tape recording and makes it easier to retrieve messages from remote locations. By the same token, Intel will be a major player in the emerging market for "flash cards"—essentially removable disk drives made of chips. Eventually, these might store 40 or more megabytes of information on a credit-card

size piece of plastic. Such cards are available today. But they hold only four to eight megabytes of data, and they're very expensive.

Within a few years, new markets such as these may put a lot more steam into the industry's growth. "There are as many emerging opportunities today as there were 10 years ago," says Motorola's Thompson. And "a lot of little drops will make a flood," adds Doug G. Andrey, director of industry statistics for the Semiconductor Industry Assn.

That may be true—for the future. But in 1992, the semiconductor industry can probably stow its hip-waders in the closet. An umbrella will suffice.

By Russ Mitchell in San Francisco



CHIPMAKERS' PROSPECTS BRIGHTEN



DATA: PRUDENTIAL SECURITIES INC

DIALING FOR DOLLARS, FAR FROM HOME

International calling and big equipment buys by foreign phone companies should light up the lines

Local phone service is so unreliable in Caracas, Venezuela, that business executives sometimes route crosstown calls via the U.S. The Mexican phone network is iffy enough that some companies bypass it entirely and bounce their messages off satellites in space. In Argentina, clerks are paid to hold phones to their ears for hours, waiting for a dial tone.

U.S. phone companies and makers of phone gear love to hear such stories because, suddenly, countries with subpar phone service want something better. So, phone equipment exports from the U.S. should jump this year. Domestic phone companies will buy into their government-owned foreign counterparts, with the idea of upgrading them and cashing in on the resulting explosion in traffic. And international phone calling from the U.S. should spurt more than 20%, capping five years of rapid growth.

That's all in welcome contrast to the outlook in the U.S. This year, communications revenues for the regional baby Bell companies should increase just 2.7%, to \$70.5 billion. Independent phone companies, led by GTE Corp., should see a 3.5% gain in revenue, to \$23.5 billion, according to market researcher Northern Business Information, a unit of McGraw-Hill Inc. It expects a 5.5% gain, to \$58 billion, in the revenues of the long-distance carriers, mainly AT&T, MCI Communications, and U.S. Sprint. In phone equipment, the Telecommunications Industry Assn., a trade group, links sales from U.S.-based factories should move up less than 5%, unless the economy grows dramatically.

The equipment business illustrates why the international market is so alluring. American Telephone & Telegraph Co. vice-Chairman Randall L. Tobias estimates that during the next decade, more money will be spent on phone gear worldwide than has been spent since the invention of the telephone in 1876. Sales should nearly double, to about \$192 billion in the year 2000 from \$101.6 billion in 1991, Northern Business Information says. Foreign phone companies, such as Nippon Telegraph & Telephone Corp. and British Telecommunications PLC, which used to buy their big phone switches from a small circle of friends, are being prodded by trade pressures to buy from U.S. suppliers. The British market has become so open, "it's almost like the Wild West," says Paul G. Stern, chairman of Northern Telecom Ltd., the Canadian producer that has big manufacturing and research facilities in the U.S.

In 1989, for example, the U.S. posted a trade deficit in telecommunications equipment of nearly \$2.5 billion, according to the Telecommunications Industry Assn. It probably posted a narrow surplus in 1991 and is headed for a bigger one this year, says the TIA, whose figures are sometimes optimistic. Exports are especially strong in switches, transmission gear, and satellites. By contrast, the U.S. remains a big importer of telecommuni-

cations consumer products, such as phones and fax machines.

The strength in overseas demand literally goes double for the bigger business of telecommunications services. U.S. long-distance companies should get more than 13% of their revenues from international calls in 1992, twice the share as recently as 1987. That should account for nearly a third of their growth in calling revenue this year. And there's a little-noticed corollary: The volume of calls coming into the U.S., though smaller than for outgoing calls, is increasing faster. Inbound calls are more profitable because of the fat call-completion

payments foreign carriers make to their U.S. counterparts, notes Andrew Burroughs, vice-president for global marketing at U.S. Sprint Communications Co.

Foreign phone companies have noticed this, too. Once, etiquette dictated that they stick to their home markets. Now, they are invading each other's turf, and 1992 could be the year a foreign phone company buys a U.S. long-distance carrier. One candidate:

Advanced Telecommunications Corp. in Atlanta, a regional carrier with about \$350 million in revenues in its most recent fiscal year. Says ATC Chairman Stephen E. Raville: "We continue to have active discussions with a number of international companies" about deals, including equity investments.

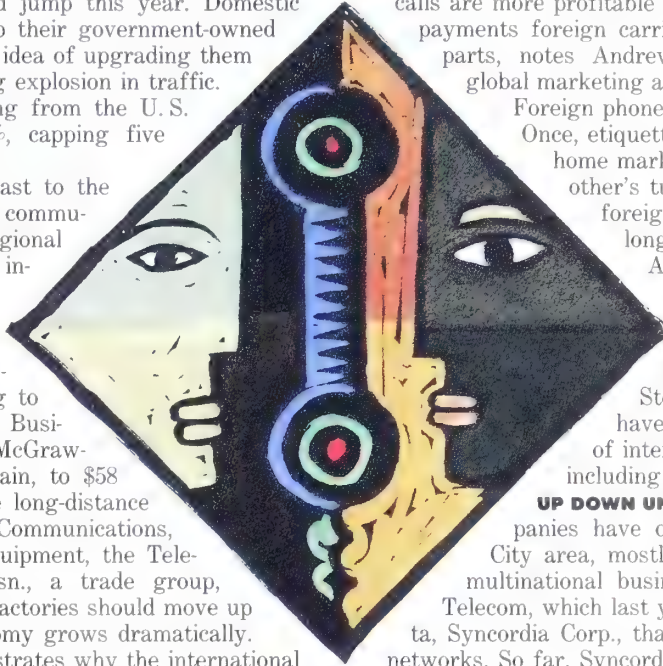
UP DOWN UNDER. Some 20 foreign phone companies have opened offices in the New York City area, mostly in the past two years, to woo multinational business. Most aggressive is British Telecom, which last year opened a subsidiary in Atlanta, Syncordia Corp., that manages big companies' global networks. So far, Syncordia has few big customers. But BT hopes to give it a boost by nailing down partnerships with Japan's NTT and Germany's Deutsche Bundespost Telekom.

Even the owners of local phone companies have been striking international deals. In November, GTE led a consortium that paid nearly \$1.9 billion for a 40% stake in the Venezuelan phone company, CANTV. And a consortium led by BellSouth Corp. and Britain's Cable & Wireless PLC won the bidding to set up a competing phone network in Australia—a \$3.1 billion investment over the next five years.

The dealmaking may get hotter this year. Among the countries aiming to sell stock in their phone companies in the coming years are Ireland, the Netherlands, Czechoslovakia, Poland, Saudi Arabia, Turkey, South Africa, and South Korea.

Most phone companies see overseas deals as a natural extension of their business—a much better fit than, say, moving into computer retailing to spur growth. "Some people paint this as a big, fancy deal," says GTE Chairman and CEO-elect Charles R. Lee. "But [it's] just nuts and bolts, down and dirty—we know how to run phone companies." So this year more than ever, American phone companies are taking their show on the road.

By Peter Coy in New York



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1992 WILL BE EASY TO SWALLOW

Drugmakers should see profits jump and the FDA become a lot more efficient

It's hard to beat the prescription for success that U.S. pharmaceutical companies have this year. The U.S. population is aging and increasingly more health-conscious, drug exports are soaring, and a number of new, high-price drugs are about ready for market. The industry's sales could jump 20% in 1992, analysts say, to about \$75 billion, and its profit margins could approach 17%.

Even so, drug-company executives aren't content to sit back and count their blessings. They face aggressive foreign competition and a new breed of domestic generic-drug makers. The way to stay on top is to watch costs and keep the new products rolling—and the industry is doing both.

In 1991, the Food & Drug Administration approved about 25 new drugs, a 25% increase from the year before. More important, the industry saw signs that the FDA may soon speed up its drug approval procedures. "Over the last several years, the FDA has doubled the number of medical reviewers," says John Petricciani, vice-president for regulatory and medical affairs at the Pharmaceutical Manufacturers Assn. It has taken time to train them. "But we should [soon] see some additional output, both in older applications... and with new submissions."

This is one reason for the healthy sales and profit outlook. It now takes some \$245 million—and 10 years—to develop a new drug, test it, and bring it to market in the U.S. Indeed, the industry's R&D spending will increase about 10% again in 1992, to \$10 billion or so. "We can't do much more to speed the discovery process," says the executive vice-president of one major company. "But when a drug is in the FDA's review process [now up to three years], it's lost money for us."

TOO QUICK. As a sign that times are changing, FDA Commissioner David A. Kessler points to one U.S. drugmaker that panicked briefly when informed last year that a drug application would likely be approved after only a 12-month wait. Such speedy approval "had never happened before," says Kessler. Apparently the company wasn't ready to start production. Kessler won't name the company or the drug. But cancer- and AIDS-drug approvals are now coming through "in about eight months, which is as good as anybody does in the world," says another top FDA official.

For the next few years, though, the approval process will remain lengthy for generic drugs, the chemical and therapeutic equivalents of brand-name drugs that sell for up to 50% less. This will hurt makers of generics, since an unusually large number of pharmaceuticals, with combined annual sales of more than \$10 billion, will come off patent in the next 18 months and be available for cloning. These include Tagamet, the anti-ulcer drug made by SmithKline Beecham of Philadelphia.

Generic producers are paying the price for

a 1989 scandal, when FDA investigators found that several of them had doctored data and misrepresented their products in other ways. The agency ordered several generics recalled from the market, and others were withdrawn voluntarily. Singed by that experience, the FDA has tightened the rules for generic-drug applications. And when it does issue approvals, it only O.K.'s two or three per patented drug, not six or seven as it once did. "It may take three to four years for the approval process to loosen up," according to one FDA official. As a result, some companies have withdrawn from the business. Their successors, including Chase Pharmaceutical Co. of Newark, N.J., and Marsam Pharmaceuticals in Cherry Hill, N.J.,

have invested heavily to improve their manufacturing and research capabilities.

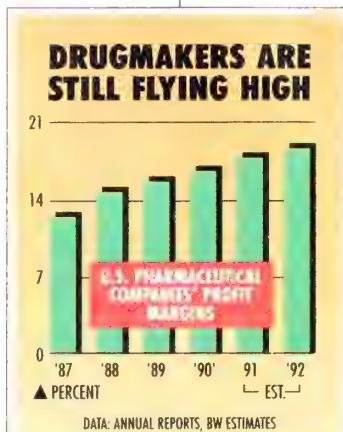
LEGAL BRAKES. Because makers of generics have been temporarily reined in, drug prices probably will continue to rise this year, and that could invite the wrath of Congress. Federal laws passed in 1990 require drug companies to give the same discounts to Medicaid that they offer other large-volume government buyers, such as the Veterans Administration. Some companies have reacted by raising prices to these other buyers. Now, several bills that are being considered in Congress would set specific prices for drugs sold under Medicaid and peg future price increases to inflation.

Whether such proposals will pass is uncertain, but most drugmakers are cutting costs just in case. Late last year, for instance, Warner-Lambert Co. took a charge of \$524 million against earnings to consolidate its facilities, mainly in Europe. "Our thesis is that creation of borderless markets [in Europe] will permit us to generate better economies, much as we did in the U.S." in the 1980s, says Chairman Melvin R. Goodes. Warner-Lambert expects to eliminate some 2,700 of its 10,000 jobs this year, including some 2,000 outside the U.S.

Even giant Merck & Co., whose earnings rose 19%, to \$1.6 billion, in the first nine months of 1991, on a 13% increase in sales, to \$6.3 billion, is restructuring to improve efficiency and cut costs. This despite plenty of good news ahead for the world's No. 1 drugmaker. Chairman P. Roy Vagelos expects that as early as February, the FDA may let Merck start selling Proscar, a drug that halts the enlargement of the prostate gland, a condition that afflicts most men older than 50. It ordinarily takes surgery to fix this problem. Proscar "will help redefine the aging process in men," says Vagelos.

That's an exciting promise—for Merck as well as for men. Proscar's annual world sales could reach \$1 billion in a couple of years. And it is just one of several blockbuster drugs in the industry's pipeline.

By Jane H. Cutaia in New York, with bureau reports

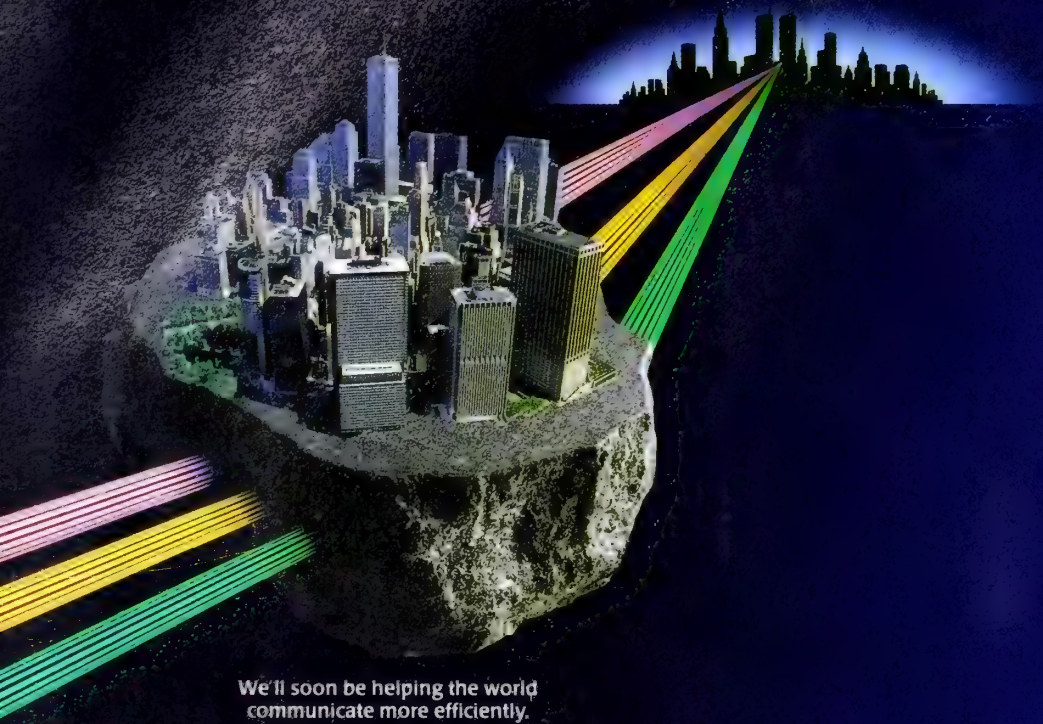




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NATURAL RESOURCES

AGRICULTURE 107 ENERGY 108 FOREST PRODUCTS 113



FARMERS HAVE A ROUGH ROW TO HOE

Prices are down, and only the export market is set to climb

The outlook for U.S. agriculture in 1992 is mixed. Farm income is expected to fall 11%, to \$52 billion, with hog and dairy farms suffering the most. Corn farmers, by contrast, should reap good profits. And strong demand for food from the former Soviet Union, plus the prospect of a new General Agreement on Tariffs & Trade (GATT), which might lower foreign trade barriers, could bolster U.S. exports.

The drop in income will reflect lower revenues across much farming. Agriculture Dept. experts think crop-farm revenues will drop 4%, while those from livestock operations may fall 6%. It will be a so-so year for other measures of farm health, too. Land prices, which have risen 14% from their farm-depression lows in 1986, will be flat. And after rising 1% last year, the first uptick in seven years, farm debt could climb 2% in 1992, to \$142 billion. "The farm sector's balance sheet hasn't fully recovered from the financial crisis of the mid-1980s,"

says James Ryan, an economist at the Agriculture Dept.'s Economic Research Service.

That's bad news for farm-equipment makers, who are reeling from the recession. Production at Tenneco Inc.'s J.I. Case unit fell 34% last year, reflecting declines of a third on some tractors despite price cuts. Deere

Co., whose ag-equipment revenues fell 10% last year, plans to shut its factories periodically this year to keep inventories lean. "Margins are expected to remain under pressure, because of low volumes and continued strong price competition," says Deere Chairman Hans W. Becherer. One rare bright spot may be tilling and harvesting equipment for newly popular crops such as canola and sunflowers.

ETHANOL EDGE. Some farmers are switching to these because of the landmark 1990 Farm Act. By altering the structure of crop price supports, it aimed to make farmers diversify into different, more lucrative products and thus hold down federal supports for crops that are in plentiful supply. This effort didn't reach its target of cutting federal farm outlays to \$6.5 billion last year. In fact, payments to farmers amounted to \$14 billion, up marginally from the year before. Still, many farmers did switch from other crops, and they planted 2 million extra acres of soybeans in response to strong demand.

The Farm Act isn't the only federal law affecting planting patterns. The latest Clean Air Act is another factor. The production of ethanol, a clean-fuel additive, will consume some 420 million bushels of corn in 1992, says the Agriculture Dept., and 900 million bushels annually by the year 2000. Grain giant Archer-Daniels-Midland Co., which accounts for some 70% of U.S. ethanol production, now counts Cargill Inc. and at least seven other major producers among its new competitors. Market forces are causing other shifts. Wheat production may not rise much this year, after falling 13% in 1991, because ample supplies worldwide are hurting prices. Meanwhile, production of soybeans and other oilseeds will continue at near-record levels, as

new uses are found for soy byproducts, an ingredient in more and more animal feed. Beef output will rise for the first time since 1985, and poultry demand may go up 4%. Record pork output is expected, as hog farmers cull herds in response to falling prices. Dairy farmers, whose revenues dropped 14% in 1991, should benefit from rebounding milk prices and growing commercial use of cheese this year. But, in part because of higher costs, dairy income won't increase much. For consumers, all this should add up to an easily digestible 2% to 4% increase in food prices vs. last year's 3% increase.

HUNGRY WORLD. If farmers find a surging market anywhere, it may be overseas. Last year, the Administration offered more than \$4 billion in credit guarantees to the Soviets. More are a good bet this year, because of a 26% drop in the 1991 Soviet grain crop, to 175 million tons, a 37 million-ton shortfall. The one hitch could be a shortage of hard currency there.

U.S. agricultural exports will climb 2% to 4% this year, Washington figures, to about \$39 billion, though corn exports may fall 6%, to \$5.3 billion. Japan, a heavy buyer of wheat and red meats and America's largest farm-export market, may spend \$8 billion on U.S. products, up from last year's unusually modest \$7.7 billion. Sales to Mexico could rise, thanks to an impending

free-trade agreement there, and China is in the market for wheat and cotton. Overall, U.S. wheat and flour exports are expected to jump 8% in 1992, to 30.1 million tons, while soybean exports will climb 17%, to 17.7 million tons. Agriculture Secretary Edward Madigan concedes that such healthy exports may inflate prices a bit at home, but adds: "That's part of the purpose: to increase income for the American farmer."

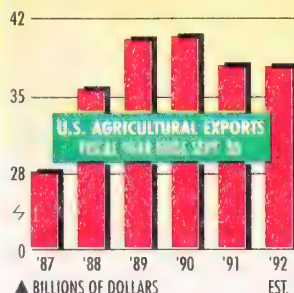
In the long run, the export picture could grow even brighter if a new GATT pact is signed, which U.S. trade officials hope to see happen later this year. By lowering foreign trade barriers, a new treaty could boost U.S. farm income by \$2 billion by 1997, says the Agriculture Dept. Negotiations involving more than 100 countries, including the U.S., the EC, Japan, and Korea, broke down a year ago, but there has been substantial movement in recent weeks in high-level discussions aimed at opening farm markets overseas. The U.S., in return, is being asked to accept a longer timetable than it wants for the changeover to free markets.

The prospect of a new trade deal is cheering family farmers such as Terry L. Wolf, who grows corn and soybeans on 1,750 acres in central Illinois. Although he sells most of his corn on contract to Frito-Lay Inc., Wolf worries about the cost of new equipment and the \$50,000 loan he took to buy 77 acres from a neighbor last July. The U.S. is "always willing to jump into places with military might," Wolf says. "We should be willing to jump into new markets with agricultural might." After years of frustration, the groundwork may be laid in 1992 for letting American farmers do just that.

By David Greising in Chicago

**ONE BRIGHT SPOT MAY BE
EQUIPMENT FOR TILLING SUCH CROPS
AS CANOLA AND SUNFLOWERS**

DULL DAYS DOWN ON THE FARM



BIG OIL'S SLIPPERY SLOPE

As profits drop, companies will put most of their exploration money into foreign fields

Atlantic Richfield Co. has long enjoyed the best of all worlds. Much of its crude comes from Alaskan fields, two days up the coast from its California service stations, which are smack in the heart of the biggest U.S. gasoline market. It liked being a mostly U.S. company. Until last year, that is, when gasoline demand fell 2% in California, prices weakened, and natural gas hit the skids, too. Earnings of the \$20 billion company fell 65%, to about \$700 million. In October, it announced plans to sell 1,100 producing oil and gas properties in the U.S. and lay off 2,100 employees, 9% of its work force. And Arco plans to step up exploration overseas, in places such as New Zealand, North Africa, and South America, in hopes of hitting big oil finds to shore up revenues.

Arco isn't alone in expanding beyond the U.S. Shell, Phillips, Sun, and other producers are, too. They especially want to put fewer new marbles into natural gas, whose average price sank more than 13% in 1991, to \$1.38 per thousand cubic feet—the oil equivalent of \$8.28 per bbl.

DISMAL. These low gas prices, plus oil prices that by yearend had dropped to about \$18.75 a bbl., pummeled the returns of the 14 biggest U.S. energy companies that don't have strong overseas refining operations. Their profits tumbled 34% last year, according to estimates by Salomon Brothers Inc. By contrast, the six major oil companies that have large overseas operations suffered a much less painful 3% earnings decline.

Either way, though, it was a dismal performance. John S. Herold, an energy consultant in Greenwich, Conn., estimates that the top 23 U.S. oil companies produced only a 2% return on sales in 1991, vs. 20% a decade ago. This year won't be much better. Barring a roaring domestic recovery or a long cold winter, profits may fall another 3%, Salomon predicts.

This outlook could change if world petroleum supplies fall short of demand, but that isn't likely. Mideast producers, the world's swing suppliers, are pumping oil. With its fires out, Kuwait is back. And Iraq may return, too, if it agrees to a U.N. monitoring plan to ensure that proceeds of its oil sales go for food and medicine for its citizens. Together, Kuwait and Iraq could be producing 2 million bbl. a day by summer, just as U.S. demand drops. No one expects a replay of 1986, when prices crashed to \$10 a bbl. Saudi Arabia would scale back its 8.5 million bbl. of production to prevent that. And exports from the former Soviet Union, the world's largest producer, may fall 25%, to about 1.8 million bbl. a day, supporting prices a bit. Still, "we could see \$17-a-bbl. [crude] again," predicts Vahan Zanoian, an analyst at Petroleum Finance Co., a consulting firm in Washington, D.C. Adds Goldman Sachs analyst John Olson: "Gas prices will only be flat."

As a result, oil companies will reduce explo-

ration spending this year by 5%. And they'll cut deepest at home. One reason is bans on drilling in oil-rich, environmentally sensitive areas in Alaska and offshore California. Another is the higher cost of domestic drilling caused by the scarcity of big new fields. Phillips Petroleum Co.'s 1992 plans are typical. The Bartlesville (Okla.) company can't win permission to produce all its oil in offshore California, where it has invested \$2.7 billion. So, it will put 60% of its \$645 million exploration and production budget overseas, vs. 40% or less in the late 1980s. The biggest chunk will go into mature areas, such as the North Sea, where Phillips already has large holdings. But it

will also drill in Gabon, Cameroon, and Yemen, says Chairman C.J. Silas. Between 1986 and 1990, Phillips added overseas reserves for \$1.80

per bbl., vs. \$3.01 in the U.S.

As they go abroad, U.S. companies will splurge on powerful workstations and sophisticated software that process and interpret seismic data—the recordings of shock waves as they bounce off oil and gas formations. Fuzzy, gray seismic maps become colorful 3-D displays. Since it started using computer-aided exploration (CAEX) in Oklahoma's Arkoma Basin in 1988, Amoco has hit on 10 of 12 wells, vs. a 13% success rate for rivals using older technology. Merrill Lynch & Co. analyst Suzanne L. Cook thinks the industry will spend \$1.6 billion a year on this technology by 1995, vs. \$5 million in 1985.

Big Oil will also spend heavily on domestic refineries in 1992, but not by choice. It headed off proposals in Washington last fall to replace gasoline in cars with cleaner-burning fuels such as methanol. Still, the 1990 Clean Air Act will require the industry to make less-polluting fuel by retrofitting refineries. The American Petroleum Institute thinks that could cost up to \$7.9 billion, raising refining costs by about 12.5¢ a gallon.

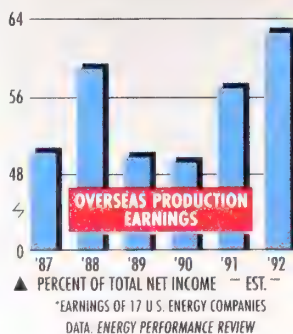
SPUTTERING. Refining costs could be tolerable this year, however. If crude prices average about \$20 and gasoline demand rises, margins at a typical Gulf Coast refinery could reach \$1.07 a bbl., up from 72¢ in 1991, according to Purvin & Gert Inc., a Houston consulting firm. This is respectable, though not good enough to persuade refiners to upgrade marginal facilities. Sources say 20 refineries were put up for sale recently by Shell, Phillips, and Amoco, among others. Those that aren't sold will probably be shut down.

In recent years, domestic exploration, refining, and marketing took turns boosting the profits of oil companies. As all three now sputter, companies such as Arco are betting on big overseas strikes to produce better earnings. But that won't happen overnight. "We don't see a turnaround until at least late '92," says Phillips' Silas. And he may be optimistic.

By Mark Ivey in Houston



OIL PRODUCERS CASH IN ABROAD



A detailed illustration of a man in a dark suit and a red and white striped tie. He is shown in profile, looking through a sextant. The background is a soft, hazy landscape with a building visible in the lower left. The overall tone is professional and evocative of exploration and navigation.

BUSINESS LEADERSHIP IN A WORLD TRANSFORMING

By Barbara H. Peters and James L. Peters

Five hundred years ago, a master navigator set sail across an uncharted

ocean and ended up discovering a new world. More than ever before, that historic adventure resonates with America's corporate chief executive officers as they contend with seas of unprecedented change, risk, and opportunity.

Today's turbulent political and economic realities call for bold senior executives, men and women who can steer the right strategic course in a rapidly transforming business environment while, at the same time, leading their own companies' transformation. This leadership challenge was the framework for the 1991 *Business Week* Symposium of North American Chief Executive Officers held recently in Washington, DC.

Broadening their challenge beyond the business context,

...continued on next page



"In today's zero lag-time world, companies must simultaneously implement new strategies, operational improvements, and information systems."

DAVID TEIGER, *chairman and CEO, United Research, a Gemini Consulting company*



"The real win is to capture and use the intellectual capital that exists in all our companies; network computing allows this to happen."

JIM MANZI, *president and CEO, Lotus Development Corporation*

Lawrence S. Eagleburger, Deputy Secretary of State, urged the gathered chief executives of major corporations to help shape and lead the new international order. "We are entering a very different world," he reminded the audience, "and there is no way to isolate ourselves from the fast-integrating global market which, increasingly, provides jobs, raw materials, capital and technology for everyone."

The two-day meeting affirmed that the political transformations described by Eagleburger — the transformations that get most of the headlines — are paralleled by equally dramatic business transformations unfolding in and around most companies.

TRANSFORMING THE CORPORATION

Most CEOs today agree that agility followed by speed is the essential factor of corporate survival.

"Companies that can adapt quickly and seamlessly to the ever-shifting global market will improve and sustain their competitive advantage," said David Teiger, chairman and CEO of United Research, a Gemini Consulting company. Teiger encourages senior executives to seize opportunities for change and growth. "Organizations that excel in this decade will have a CEO who serves as 'CTO' — chief transformation officer."

Teiger observed that, in the past, corporations typically introduced transformation step-by-step: A company conceived a vision, designed a supporting strategy, then implemented new operational systems. "But in today's zero lag-time world, speed is a key differentiator," said Teiger. "As CTOs, we have to articulate and champion a powerful, inspiring vision of the future. And then, consistent with that vision, we must *simultaneously* implement strategy, operational improvement, and information systems that keep our customers enthusiastic, our shareholders satisfied, and our employees motivated."

Alignment, empowerment, and a learning culture are the key elements of organizational transformation, Teiger concluded. Hugh Jacks, president and CEO at BellSouth Services, seconded that view enthusiastically and zeroed in on empowerment. Jacks led an initiative to redesign many of his company's traditional policies and practices as he launched a transformation process that involved everyone in BellSouth Services'

largest organization. "The CEO can change the way a business operates, but the CEO cannot transform the business. Only the people can do that," Jacks said. "The edge will definitely go to the CEO who understands the value of people and motivates all employees to become transformation catalysts."

At BellSouth, this course was well-rewarded. Partnering with a team of consultants for 18 months, one area of the company has rightsized its work force, measurably improved service, and eliminated \$70 million in annual costs.

Gerhard Schulmeyer, president and CEO of Asea Brown Boveri Inc., also salutes the power of people. As leader of a \$30 billion global company that emerged just a few years ago, Schulmeyer observed, "People on the shop floor often know more about the business than the executives." By developing a participative culture that draws on front-line competencies, ABB expects to "keep its house in order and sustain its customer-responsive organization."

INFORMATION TECHNOLOGY AND BUSINESS TRANSFORMATION

Business leaders concur that information technology drives much of today's business transformation.

Speed and flexibility — attributes of world-class companies — spring from the strategic deployment of advanced information technology. The ever-accelerating telecommunications and computer revolution has itself created significant business opportunities for companies that recognize the power of digitized transmissible voice and data — and are able to move quickly.

But "Companies shouldn't focus on delivering more information. Rather, they should seek to deliver higher quality information — data that is applicable and accessible to the entire organization," said Jim Manzi, president and CEO of Lotus Development Corporation.

"The real win is to capture and use all the intellectual capital that exists in your company," Manzi said. "Network computing hurdles over the hierarchical and geographical barriers that have isolated our rich intellectual resources for so long." One software application that taps this talent reservoir is Lotus Notes, described by one Lotus cus-



omer as an "intellectual property management system." In this breakthrough program, the company electronically links its global staff and customers into one Lotus loop. Notes is a vital part of our own information architecture and gives everyone access to all pertinent data. It improves communication and helps us make better products and services," Manzi concluded.

LEVERAGING INNOVATION TO TRANSFORM CUSTOMER SERVICE

Advanced information technologies are also giving companies new means of delivering customer service and improving the responsiveness of their organizations.

"Innovative technology has opened up new possibilities for companies and customers alike; one is the ability to access and utilize data that has been inaccessible until now," said George Conrades, IBM senior vice president and general manager, IBM U.S. "When you free data from its traditional media — using innovations like image, voice recognition or multimedia — you bring a new level of productivity to a service business. You also free people from routine tasks so they can pay more attention to serving the customer.

"And customers are demanding a *total service experience*, rather than simply being satisfied with the product itself — whose quality is increasingly seen as a given," Conrades continued. "As technology raises expectations, it also raises the bar for manufacturers to provide the level of capability that's necessary to turn customer expectations into reality.

"At IBM, helping customers solve their increasingly complex business problems is the thrust of our services strategy, including the expansion of our systems integration and consulting practices. Information systems are critical to the success of that strategy and to our market-driven quality management system," Conrades said. He advises CEOs to make necessary cultural and process changes, before implementing any I/S strategy. They should define *what* is needed and *where* it is needed in the organization to deliver new levels of satisfaction to their customers. Once executives do that, an effective information infrastructure can be the underpinning of their company's processes — with data as their lifeblood.

"As new technologies and products become more like commodities and available to all competitors, customer service has become a means of competitive differentiation," Conrades added. "The degree to which a company delivers customer service — in effect, everything that enhances customer satisfaction — will largely determine which ones succeed or fail in the decade ahead."

MCI Communications Corporation provides an excellent example of that. "Technology integration is at the heart of our marketing plan," said Richard T. Liebhaber, executive vice president and group executive. "Information technology allows us to research customers' preferences and calling patterns. With this data, we stay ahead of the curve by anticipating customer expectations and retooling our products and services to deliver added value."

The president of Hershey Chocolate USA, Joe Viviano, led a chorus of "Hail to the Customer" to underline his company's commitment to stay close to its customers. "Partnering with our customers supports our company's team approach — the approach that will carry Hershey into the 21st century," he said. "This strategy goes directly to our bottom line: A loyal customer is 10 times more profitable annually than a revolving-door customer."

Empowering customers is routine at IBM's Rochester, Minnesota, manufacturing facility — a 1990 winner of the Malcolm Baldrige National Quality Award. As part of IBM's market-driven quality strategy, a path-breaking practice at this plant is to engage customers in product development at the earliest possible stage. Robert J. LaBant, vice president and general manager, noted two important benefits of customer involvement: The product development cycle was reduced from two years to six months; and US customer satisfaction was up 7 percentage points from August 1989 to January 1991. IBM equates each percentage point of customer satisfaction to millions of dollars of increased revenue.

A NETWORK FOR TRANSFORMATION

James C. Bills, executive vice president of Novell, Inc., described how existing IT architectures can be integrated with other systems through network computing.



"The degree to which companies deliver customer service will determine which ones succeed or fail in the decade ahead."

GEORGE CONRADES,
senior vice president and
general manager, IBM U.S.



"Business-wide networking connects internal and external customers, suppliers, and partners — thus changing the ground rules of the global marketplace."

JAMES C. BILLS, executive
vice president, Novell, Inc.



"For US business to remain globally competitive, its voice needs to be raised in the national health care debate."

ROGER TAYLOR, MD,
National Leader-Health Care,
The Wyatt Company

"Winning companies are building technological infrastructures that electronically connect their internal and external customers, suppliers and partners. Business-wide networking is changing the ground rules of the global marketplace."

Bills noted that more and more organizations are transforming from the familiar hierarchical model to a horizontal one where information-sharing electronic networks provide the competitive edge. Since information strategy is now the most crucial strategic decision for many companies, Bills insists that senior executives must lead the networking transformation. "As a CEO today, you have three options: You can make this transformation happen; you can watch it happen; or, at great risk, you can ignore it."

Network computing certainly gives Mrs. Fields, Inc. its most significant competitive advantage. In fact, chairman Randy Fields says that the cookie company's very survival depends on technology deployment. He uses IT to capture the decisionmaking skills of the firm's best managers, then leverages that knowledge by distributing it horizontally to over 700 stores worldwide.

Dr. Jerry Mechling of the Kennedy School of Government, Harvard University, took Bills' analysis one step further. "Computers are communicating at such great speeds that today's interconnecting networks are already inadequate. CEOs must think about how the information infrastructure of the future will be configured to carry the emerging global services. To compete in the information age of the 21st century, the US needs to build a communications platform today."

SEEKING A NEW HEALTH CARE PARADIGM

From the business perspective — and the nation's — America's health care system is in crisis and in need of transformation. In 1990 alone, health care costs rose by 10.5%, totaling \$666.2 billion — an all-time high of 12.2% of GNP.

With its health care costs soaring by over 20% a year, Southern California Edison switched to a managed health care plan in 1989. President Michael Peevy reported that his company now manages health care costs the same way it manages many other costs. "The company developed a group of health

care clinics staffed by professionals who were willing to accept the fees the company was able to pay." To encourage employees to use these providers, co-payment differentials were introduced. In addition, financial incentives for good health were tied to the company's benefit plan. The initial results are impressive: Peevy cited a savings of \$36 million for 1989-1990.

A recent survey by The Wyatt Company of *Business Week* 1000 CEOs revealed that their number one priority is health care. Roger Taylor, M.D., National Leader-Health Care for The Wyatt Company, says, "It is not surprising that health care topped global competition, worker productivity, and government regulation. It is the one element of compensation that continues to spiral with absolutely no tradeoff in productivity or competitiveness."

Dr. Taylor believes that fundamental reform will be necessary to bring costs down — including some form of government intervention. He urged business leaders to get involved in the national dialogue. "Labor, medical and hospital associations are already pitching their interests. For US business to remain globally competitive, its voice needs to be heard loudly and clearly as this momentous debate escalates."

William Ferguson, chairman and CEO of NYNEX, endorses Dr. Taylor's view. He also articulated some principles that he feels can be a strategic framework for a reformed US health care system: All Americans deserve basic health care; the consumer must have responsibility for making health care choices; quality should be measured and rewarded; all providers should adhere to the highest ethical standards; and the system should respect individual rights.

Whether the mission is to totally revamp the nation's health care system or to radically alter a company's management strategy or IT model, the transformation journey isn't easy, isn't linear and, often, isn't invited. Like Columbus' 15th century exploration, this journey will take vision, tenacity, and daring of the highest order — defining assets of tomorrow's business leadership.

Barbara H. Peters and James L. Peters are New York-based business writers who specialize in corporate communications.

A LIGHT IN THE FOREST?

Wood and paper profits could soar, after their worst year in a decade

Things are bound to improve in 1992, or so it is said in the \$182 billion forest-products business. For makers of both wood and paper products, last year was the weakest in nearly a decade. "Things got worse than we ever thought they would," says President A. D. "Pete" Correll of Georgia Pacific Corp. But, he adds, "1992 will be significantly better."

Indeed, a slow turnaround seems to be starting. Wood prices are up, after hitting a four-year low last February. And prices of some grades of paper and paperboard have risen recently from their recession lows. So, after dropping 52% in 1991, profits for the 16 largest forest-products companies could jump 47% this year, says Sherman Zhao, an analyst at Salomon Brothers Inc.

RUNNING SUPPLIES. Wood products may not eat that average a bit, but not for the usual reasons. Housing starts dropped to a 40-year low in 1991 and may not bounce back quickly. So demand for lumber may grow only 8% this year, to 5 billion board feet. Prices are another matter, however. Last May in Seattle, U.S. District Judge William Jwyer blocked timber sales from federal lands in the Northwest until the U.S. Forest Service writes rules to ensure the survival of the endangered Northern spotted owl, which nests in old-growth timber, the oldest and tallest trees. Thanks largely to this constraint on supply, the composite price of lumber, as calculated by the trade publication *Random Lengths*, jumped from \$197 per 1,000 board feet last February to \$311 in June, before the economy stalled. It dropped to \$218 in October but by yearend was up to \$235. As buyers started worrying that the timber shortage might shut down more of the independent mills that buy logs and thus cut supplies of lumber even more. Meantime, higher prices are a bonanza for big companies such as Weyerhaeuser and Louisiana Pacific, who have their own timber holdings.

The question is, what happens when the economy recovers? The Forest Service says that cuttings in the South, plus imports, should make up for lost Northwest production. Many industry executives disagree, however, and predict that prices will soar. If so, builders may increasingly turn to metal and plastic, plus such reconstituted wood products as laminated veneer framing lumber, which can be made from smaller, less valuable trees. "With decreasing availability of old-growth lumber, substitutes will be the wave of the future," predicts Walter Minnick, president of TJ International in Boise, Idaho. Minnick recently formed a joint venture with Canada's MacMillan Bloedel Ltd. to make such products.

While wood supplies tighten, surplus capacity is depressing prices of paper and the pulp from which it is made. Papermakers raised their capacity 3% last year and will add 2.3% more this year, according to the American Paper Institute (API). Plant-operating rates

are at 91% now, below the 93% that marks a strong business cycle. And they may not reach 93% until 1993. John A. Georges, chairman of International Paper Co., calls such an improvement "slower than we would like." Still, operating rates could creep up to 92% this year. So overall pulp and paper profits may rise 11%, after last year's 37% decline.

Linerboard, used in corrugated boxes, may do better than that. When a 9% price increase held in September, economists thought maybe the economy was recovering. Now, it seems that much of linerboard's strength came from exports, which rose 15% last year. But to manufacturers, a sale is a sale. "We think we're in good shape even if the upturn is modest," says R. E. Cartledge, chairman of Union Camp Corp. He expects a 10% jump in his linerboard exports this year on top of a 15% increase in 1991. His plants are running at 95% of capacity.

The outlook for paper is harder to gauge. Prices for the uncoated kind used in office copiers and printers nose-dived a year ago, recovered, then faltered in October. Analysts think this reflects layoffs in financial, legal, accounting, and other white-collar jobs. "You don't have as many people in front of Xerox machines," says Evadna Lynn, Dean Witter's paper analyst. Demand is also lackluster for other grades of paper. A near-depression in advertising zapped sales of newsprint and coated magazine paper last year. After capacity additions in 1990, the former is selling for up to 30% off list, or \$480 a metric ton. At that price, some mills were taking a loss on the newsprint they made last year. And that's without figuring in fixed costs. In the absence of a sharp advertising recovery, discounts will prevail again this year.

CRASHING PRICES. Pulp is another disaster. Prices bottomed out last year at \$490 per metric ton, down 42% from 1989. High-cost producers in Canada and Scandinavia can't break even at this level. Even Procter & Gamble Co., a large pulp producer, cited crashing prices as a major reason for its 3% earnings drop, to \$536 million, in the quarter ended last Sept. 30. Pulp prices firmed a bit in December. But with new mills coming on-stream, mostly in South America, profits may be slim until 1993.

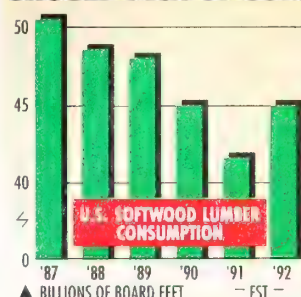
Tissue makers are in similar straits. Capacity utilization is at 91%, vs. 96.6% in 1990, and producers are locked in a bruising market-share battle. "Prices have fallen as far as they're going to fall, but we're not expecting recovery" soon, says Peter T. Pope, chairman of tissue-maker Pope & Talbot Inc.

Exports kept papermakers afloat last year: The API says overseas sales jumped 21%. Still, forest products makers are so tied to the U.S. economy that they won't do really well until it recovers. Says Pope: "The big question is: Are we coming out of recession?" Indeed, that's the question of the year.

By Dori Jones Yang in Seattle



LUMBER DEMAND SHOULD PICK UP SOME



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Everything MIS needs to know about the difference between a Compaq PC with Intelligent Modularity and a merely upgradable PC.

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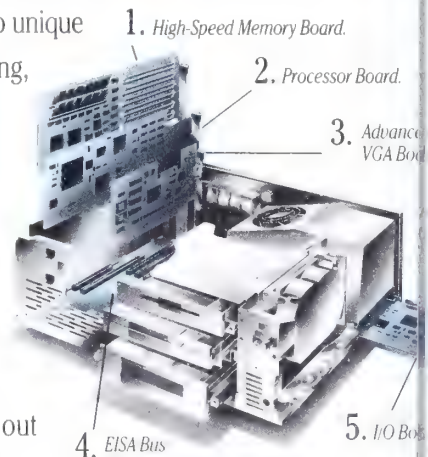
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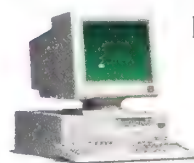
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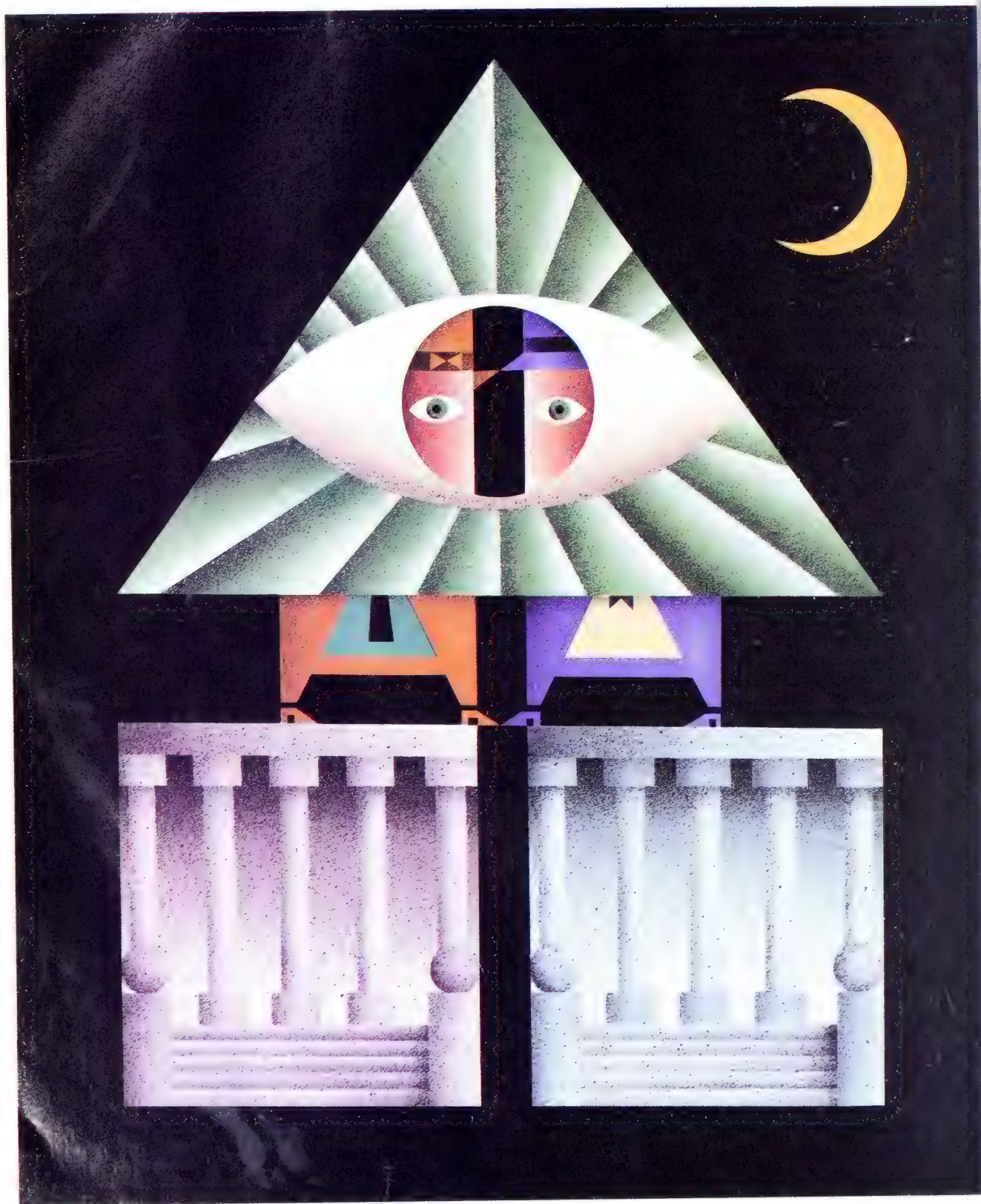
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THINGS COULDN'T GET WORSE, RIGHT?

Real estate is still thorny, and the economy is weak. Yet 1992 doesn't look half bad to bankers

After spending the past couple of years watching bad real estate loans pile up like dead whales on a beach, bankers are looking for a little relief in 1992. And while it is still early to be promising a full recovery, they think they see signs that the worst is over. There's even talk of a modest upturn in bank earnings for the year.

This more serene outlook follows a year of near-panic scrambling as banks tried to get a handle on their loan problems. Most halted construction lending more than a year ago, then spent 1991 nursing their bruised portfolios. They foreclosed on troubled properties and built up bigger reserves against which to write off bad loans. Now, a year after the collapse of the Bank of New England, the largest failure in 1991, the bulk of U.S. banks are in better health. At the end of the third quarter, the top 50 had enough reserves to cover 98% of their nonperforming loans.

It's true that huge problems remain at several heavy real estate lenders. Citicorp, the nation's largest bank, had reserves to cover only 40% of its bad loans at the end of September. That was down from 48% three months before. But such cases are now the exception, and with low interest costs widening the margin between funding costs and the loan rates banks charge, profits are turning up. In December, the Federal Deposit Insurance Corp. reported that the nation's 12,072 commercial banks earned a total of \$4.3 billion in the third quarter of 1991. Although the results were down 7% from the previous quarter, profits were still 19% higher than a year earlier.

TAGGING INJURIES. This will make it easier for banks to juggle some serious continuing problems in 1992. Although the pace of deterioration has slowed, existing loans are still going bad at many banks. The cost of carrying foreclosed properties will also continue to be a drag on banks' financial resources.

And there is the still uncertain economy. With the recovery limping, corporate borrowing will remain weak. Despite howls from the Bush Administration and Congress, bankers adamantly deny that they're refusing to grant loans to credit-worthy borrowers. They say they just don't foresee much higher demand for money until the second half—and then only if the economy strengthens.

Consumer borrowing will also remain sluggish over the next few months. With the economy sagging, the specter of more layoffs continues to scare workers. White-collar employees, who have traditionally accounted for the biggest share of consumer borrowing, seem especially worried. The result will be continuing soft demand for auto loans and some mortgages. Even the use of credit cards isn't expected to grow as fast this year as in the past. Many experts think charge volume will rise by 7% in 1992, vs. 10% in 1991.

California banks appear especially vulnerable if the business environment stays weak this year. With the state's economy in decline and real estate prices slipping, local banks are

encountering problems reminiscent of those that swamped New England. Nearly one in four California banks reported a loss in the third quarter of last year. San Francisco-based Wells Fargo & Co., which is heavily exposed to commercial real estate and leveraged buyout loans, said in December that it will set aside \$700 million more for expected loan losses.

MEGABANKS. All the economic uncertainty may hasten the industry's drive toward consolidation, which began in earnest last year. Indeed, with banks hoping to trim costs, improve market share, and attract fresh capital, mergers often look like a wise move. As an industry, "we've just scratched the surface" of this trend, says Daniel R. Smith, chairman of First of America Bank Corp. in Kalamazoo, Mich.

Once momentum picks up, colossus-size banks will emerge. On Dec. 31, Chemical Banking Corp. and Manufacturers Hanover Trust Co., two New York money centers, completed their

merger. The combined bank, which is being called Chemical, will reign briefly as the nation's No. 2 bank, until BankAmerica Corp. completes its acquisition of Security Pacific Corp. early this year. The new year also saw the birth of NationsBank, following the merger of NCB Corp. in Charlotte, N.C., and Atlanta-based C&S/Sovran Corp.

Efforts in Washington to restore the industry's health won't be nearly as noticeable. The Bush Administration tried and failed last year to give banks new powers, such as selling and underwriting securities and insurance. All Congress would agree to was the \$70 billion bailout for the FDIC, which was passed in the waning hours of 1991's legislative session.

Although the White House would like to try again in 1992, Congress isn't likely to plunge into an election year confrontation with the powerful securities and insurance industries, which are fearful that the banks could end up as big competitors. And bankers aren't likely to push for action, either. With the savings and loan disaster still fresh in lawmakers' minds, Congress last year seemed to favor rolling back, not expanding, the banks' entry into new financial businesses.

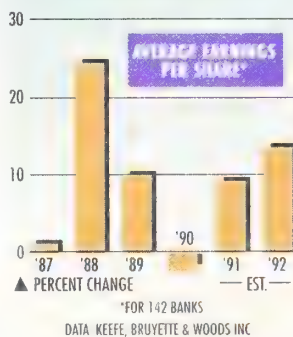
Regulators, too, will be leery of giving the banks more freedom. So far, the Federal Reserve has authorized more than 30 bank holding companies to set up securities subsidiaries that can underwrite corporate debt issues. Three, to date, have been permitted to underwrite stocks. The Fed could offer expanded powers to more banks this year. But Congress' mood makes even that unlikely. "Some of us might like to be aggressive," says one Fed official, "but then we could be accused of ignoring the intent of Congress."

Without a breakthrough in banking reform, 1992 won't be momentous for the industry. But bankers really don't care right now. What they want at this point is simply a peaceful and more prosperous New Year.

By John Meehan in New York, with Mike McNamee in Washington

**BANKS AREN'T LIKELY TO PUSH
FOR NEW POWERS—AND WASHINGTON
ISN'T LIKELY TO GRANT ANY**

BANK PROFITS LOOK STRONGER



KEEP THE CUSTOMER MOLLIFIED

The long term looks solid—but after a gruesome 1991, policyholders will need a lot of reassuring

The insurance industry is staggering into 1992 with its reputation for stability in shambles. And while the worst may be over, more problems lie ahead. Rotten real estate investments will continue to gnaw away at insurers' asset values. Moreover, a brutal price war among property-casualty providers will get nastier.

Four monstrous life-insurer failures last year jolted the public, which had viewed insurance as bedrock-solid. Executive Life, First Capital, Monarch, and Mutual Benefit were seized by regulators, leaving thousands of policyholders in limbo over the fate of their benefits. In scenes reminiscent of Great Depression bank collapses, the insured lined up to cash in policies. Comparisons with the 1930s are overblown; insurers generally are fairly well capitalized. Yet people ask: Who's next?

The good news may be: nobody. Barring the unexpected, few analysts see another meltdown in 1992. The real estate slump may bottom out, especially if the economy finally rebounds. And, many insurers are aggressively combating what they call "run risk"—the circumstances that frighten policyholders into cashing in. That's what pushed last year's failures over the edge. Since then, many companies have lessened their real estate exposure and boosted their liquid assets to reassure customers. And industrywide, mortgages as a share of total assets will shrink from 23% in 1991 to 20% by the end of this year, according to projections from Standard & Poor's Corp. Life insurers' operating earnings for 1991 were "flat or slightly down" from 1990's \$13.6 billion, says Larry G. Mayewski, a vice-president at A. M. Best & Co., the rating firm, but experts see a modest improvement in 1992.

SPARK OF LIFE. The byword this year will be asset quality, as strong insurers win policyholders from weaker ones. Companies such as Prudential, Metropolitan, and New York Life are stressing their potent asset bases in sales pitches. Says Mark Puccia, a senior vice-president at S&P: "The focus now is on solvency, not returns." In the 1980s, insurers competed by promoting high earnings on investment assets. Now, many are cutting policy dividends and using the savings to shore up capital.

Oddly, amid all this concern for safety, the walking dead show a spark of life. Big-time investors are prospecting for value in companies that were ruined by risky real estate loans and junk-bond investments. Altus Finance, a subsidiary of the French bank Credit Lyonnais, is buying Executive Life's junk for \$3.25 billion, a nice discount from face value. The French insurance giant MAAF will assume control of Executive Life and inject \$300 million of fresh capital.

The attraction is that, long-term, U.S. life insurance companies seem a good bet. Given the aging population, "demand for life and

annuity products will only increase," figures John R. Muse, principal of Hicks, Muse & Co., an investment firm that bought seven insurance units in 1990 from then-ailing IC Corp. Another bottom-fisher is the French insurance heavy weight Groupe Axa, which has rescued Equitable Life Assurance Society of the U.S., the nation's No. 3 insurer. Despite Equitable's bad investments in recent years, Groupe Axa sees enough intrinsic worth to invest \$1 billion for a 45% stake.

DISASTROUS LUCK. While life insurers try to rebuild, property casualty companies will engage in suicidal price-cutting. The rate war is a product of the industry's boom-and-bust cycle.

The recession has stressed out policyholders, particularly large commercial ones, making the competition more acute. Auto coverage, which makes up 46% of the property-casualty market, is offering insurers no relief: Many states are cracking down on car rates.

All of this is especially worrisome in light of the industry's bad luck with natural disasters, which can produce huge claims in just one day. Last year may have been the second-worst ever for catastrophe claims, chiefly because of Hurricane Bob (\$780 million) and the Oakland (Calif.) fire that caused \$1.1 billion in damage. The worst year ever was 1989, in which Hurricane Hugo and the San Francisco earthquake led to \$7.6 billion in claims. Such cata-

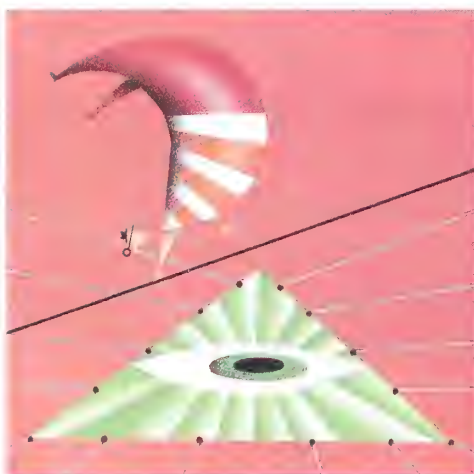
strophes have insurers talking wistfully of an end to price slashing. But that won't come soon. Says Steven K. Bolland, senior vice-president at Gill & Roeser Inc., a consulting firm: "People are betting on 1993. Or maybe 1994."

The government action that could most affect both life and property-casualty insurers is legislation that would put Washington in charge of regulating the industry. Insurance oversight is now exclusively a state concern. But many in Congress think the states are lax in policing insurers' balance sheets. So, there are numerous plans on Capitol Hill to impose tougher, uniform standards. Large companies might accept some degree of U.S. oversight. Small ones will fight the idea on the theory that state regulators are more malleable.

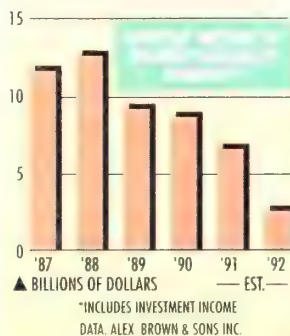
Still, state regulators are scrambling to tighten up and prove that a federal role won't be necessary. The National Association of Insurance Commissioners, the state regulator umbrella group, is considering uniform standards. It might require that companies with riskier investments amass more capital as cushion.

Whatever the approach, there's a pattern developing. In 1992, safety for policyholders will be the top concern of those who run and regulate the insurance industry. And that's bound to be a drag on profits.

By Larry Light in New York, with Linda Driscoll in Hartford



HARD TIMES FOR INSURERS



WORSE THAN LAST YEAR COULD BE TERRIFIC

The securities industry expects a decent '92, but it will be hard to match the spectacular '91

With any luck, 1992 will be better than decent for the securities industry. Interest rates are low right now, as they tend to be in election years, which should help keep the stock market high. But favors from Washington aren't going to last, and there's no guarantee of "two wonderful years in a row," says Thomas A. James, chief executive of Raymond James & Associates Inc. and chairman of the Securities Industry Assn. He adds: "This is going to be a good year, but we'll be hard-pressed to match 1991."

For most of the industry, 1991 was spectacular. Brokerages recovered from a pretax loss of \$160 million in 1990 to earn an estimated \$5.3 billion before taxes, just shy of the \$5.5 billion record set in go-go 1986. Traders and investment bankers saw some of that reflected in their yearend bonuses, which were up an average of 20%, according to Street recruiters. Brokerage stocks soared, with those of Merrill Lynch & Co. and PaineWebber Inc. tripling during 1991. "It was an easy year to make money," says Charles Vincent, an analyst at PNC Financial Corp.

Wall Street can thank the Federal Reserve for much of that prosperity—and for the promise of more to come. A drop of 2.86 points in the 90-day Treasury bill rate and a 2.5-point prime rate decline over the previous 12 months had the brokerage business firing on all cylinders. Thanks to the shock of such big cuts, investors clamored to trade in their certificates of deposit for higher-yielding stocks, bonds, and mutual funds, and thus created commissions and fees for retail brokers. Corporations refinanced their high-interest-rate debt by issuing new debt at lower rates, fueling an underwriting boom. Equity underwriting flourished too, as companies tapped the robust stock market. And securities firms made money simply by marking up the value of their own inventories, which suddenly became more valuable as interest rates dropped and bond prices rose.

READY LEAN. With a recovery expected in the spring, rates almost certainly won't drop as much this year. And there are signs already that the underwriting business, which generated big profits in 1991, is slowing down. Take the market for initial public offerings, which was red-hot in 1991. Through last Dec. 18, some 355 companies, from Marvel Entertainment Group to Dural Inc., raised \$15.7 billion through new IPOs, up from the \$4.5 billion raised in 1990. Still, starting in October, a weakening stock market forced some corporate issuers to postpone or withdraw their offerings. Among them were 14 companies, including Fleet Call Inc. and USX/Marathon Group, that had been planning to issue \$1.3 billion in stock, according to Securities Data Co.

Even so, analysts see at least an outside chance that 1992 profits could approach last year's. Wall Street managers are betting that underwriting, trading, and retail brokerage will all perform well this year. Traders in

niches such as mortgage-backed securities and derivatives, which are esoteric options and futures contracts, say that these instruments are still in demand. So after holding their retail sales forces flat for several years, large brokerage houses are hiring again. Shearson Lehman Brothers Inc. even has restarted its big broker training program.

Indeed, one reason last year was so good was the amount of retrenching the Street has done. Firms have spent the past few years slashing their head counts and reducing fixed costs. If revenues soften, this improvement in productivity should insulate the industry from extremely low earnings. The big danger is that notoriously spendthrift securities firms will

begin another cycle of overexpansion, instead of staying trim and opportunistic. "All firms face the dual challenge of keeping costs down while scratching their heads as to what are the core businesses of tomorrow," says Jean-Louis Lelogeais, a principal at Booz, Allen & Hamilton Inc.

Defending existing core businesses will also be harder this year, as banks ratchet up the competition. On the institutional side, J. P. Morgan & Co. and Bankers Trust Co. have become global powerhouses. In 1992, they'll woo away more of the industry's most lucrative trading and underwriting business. On the retail side, the battle for the individual investor will kick into high gear, too. Banks are aggressively

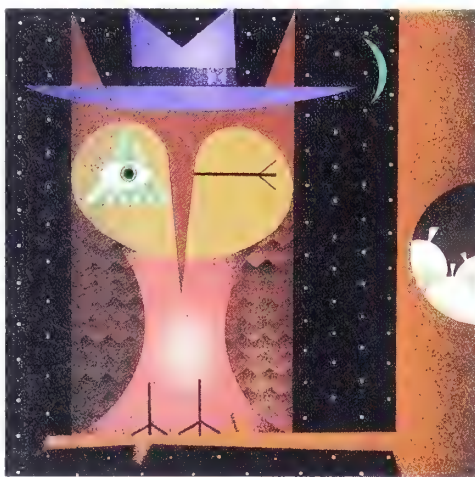
marketing investment products such as mutual funds to keep their customers from defecting to brokerages. So, brokerages will have to improve their offerings and reputation to hold market share.

MORE TARNISH? The biggest unknown hanging over the industry is the outcome of Salomon Brothers Inc.'s Treasury-bond-rigging scandal. This year, regulators could mete out punishment that could determine the firm's future prospects, even its survival. Salomon's stock is trading up 25% from its low in August, when the scandal broke, so the market is betting on punishment that won't put it under.

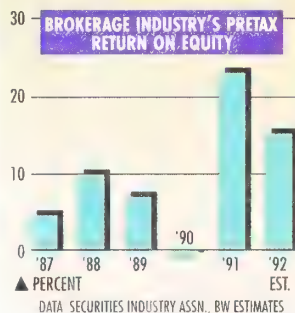
With investigations by the Securities & Exchange Commission and the Justice Dept. still under way, however, there is the possibility that other Wall Street firms will be tarnished by the scandal. "The people at Salomon can't have been the only ones doing these things," says Thomas Mitchell, who runs his own money-management firm, Mitchell & Henry, in New York. "I expect that we'll see more allegations of self-dealing against the major brokerage firms."

While the Street awaits that verdict, it has some solace. It went through the pain of cost-cutting earlier than most U.S. white-collar industries. The malaise that settled over the economy in 1991 has thus bypassed the securities industry so far. And the Street could be a winner again in 1992—if not by a landslide then at least by a respectable margin.

By Leah Nathans Spiro in New York



GOOD TIMES ROLL ON WALL STREET



'IT WILL BE A BOTTOMING-OUT YEAR'

The real estate disaster will continue, with a faint bright spot: An anemic recovery in housing

Real estate will be a mess again this year, with only one halfway positive development: There will be an anemic housing recovery. But in the commercial sector, business will be at least as bad as it has been the past two years. Thus, "the best you can say for 1992 is that it will be a bottoming-out year," says James J. Gorman, executive vice-president for the Real Estate Research Corp. in Chicago. "No recovery will be in view until at least 1993 or 1994."

Housing will owe its better fortunes to the magic of cheaper interest rates. The Federal Reserve has been cutting rates to end the recession, so mortgages are now at their lowest point in 17 years: 8.4% for a 30-year fixed-rate loan—and dropping. Home prices, which rose more slowly than inflation in 1989 and 1990, are beginning to rally. They rose about 7% last year, and may go up 5% in 1992, says the National Association of Realtors. That's well below the torrid appreciation of the 1980s but may be enough to lift the gloom of homeowners trying to sell. In the Northeast and California, though, prices are still falling.

It's true that any really big buying surge will wait until the recession ends. Buyers are reluctant to shell out \$102,000 for a new residence—the average 1991 price—unless their jobs are secure. Overall housing starts, which hit a postwar low of 900,000 in 1991, could rise 25% this year, according to the National Association of Home Builders. By contrast, in the most recent recovery year, 1983, starts rebounded by 70%—to 1.7 million units.

FILLING APARTMENTS. Still, any upturn is good news for builders. Lagging demand for dwellings has left many builders gasping. U.S. Home Corp., for instance, filed for Chapter 11 bankruptcy protection last April after slumping sales left it unable to service its debt. Apartment builders may feel the recovery first. Vacancies have dipped from 11.5% in 1988 to 9% now, and the rate is still dropping. That's partly because home prices remain too high for many people, despite recent moderation.

No matter how strong the recovery in housing, however, it won't counterbalance the shock waves from the collapse in commercial real estate. This year will be another disaster for everything from construction-industry employment to the federal budget, which will have to be stretched again to bail out banks hurt by bad mortgage loans. Recession-wracked lenders are reluctant to roll over many landlords' maturing loans. And tenants are getting rent cuts for lease renewals.

The worst of the commercial calamity this year will again be in office buildings. The national vacancy rate for downtown space is 19%, up from 16.4% in 1986. Just about every region of the country has a gross surplus. Manhattan, the nation's largest office market,

is at a 17% vacancy rate. Los Angeles, long immune to office gluts, has one now: Its 19.2% vacancy rate is up nearly 7 points in just two years. Lone Star State boosters are talking about a "Texas turnaround" now that oil prices have recovered from the mid-1980s bust. Translation: A horrible market is becoming merely awful. During 1991, Fort Worth's vacancy rate eased from 20.3% to 17%.

Hotels also are still a wasteland, reflecting an overexpansion in the 1980s. The current average 60% occupancy rate is well short of the 65% most hoteliers need to break even. Room rates are falling in major cities and even in resort towns

such as Orlando. Lender foreclosure climbed from \$900 million in 1990 to \$1.5 billion in 1991, with a higher figure expected this year. The Resolution Trust Corp., the federal agency clearing up the S&L debacle, is one of the nation's biggest hotel owners, having taken over 150 so far from busted thrifts.

LOWERED SIGHTS. Retail property will be a mixed bag in 1992. Reflecting huge expansion in the 1980s, there are now 18 square feet of retail space available for every person in the U.S., double the amount in 1975. Still, regional mall building was based on better market research than office developers used, so vacancies in shopping centers are only 10%. That rate should

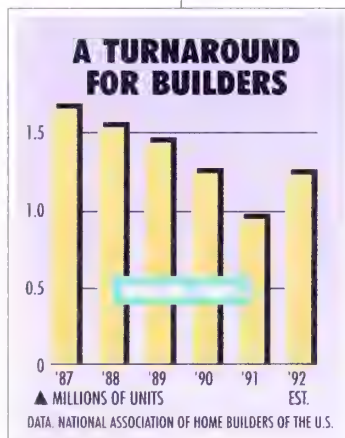
fall once the recession ends—unless there is a shakeout of major department stores, a possibility resulting from weak sales.

On balance, in short, developers remain in a hunker-down mode. That's particularly true in the New York area, where slumps in publishing, advertising, and financial services have produced the bleakest real estate outlook since the mid-'70s. For example, Ronald B. Bruder of Brookhill Group, a New York property investment firm, is eyeing five well-located but rundown East Side Manhattan buildings whose owner is in bankruptcy. He hopes to buy now and later turn the space into condominiums. But "I wouldn't build today," he adds, "because the numbers don't work."

Other developers are lowering their sights. Tishman Realty & Construction Co., which built the World Trade Center, now is putting up a post office and a prison. The Milstein family, which built many Manhattan edifices, is also putting its money to work in less prestigious ways. Among them: the acquisition of Douglas Elliman-Gibbons & Ives, which manages existing luxury apartment buildings.

Of course, slow construction now means that inventories of both homes and commercial properties will fall. So demand eventually will absorb supply. That hope will have sustain real estate people through what promises to be another tough year.

By Larry Light in New York





"So, learn anything about that company?"

"I think it's in trouble."

"Shaky financials?"



"No, solid numbers. And management."

"But...?"

"Technology's about to kill their market."

"Whoa!"



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THE BEST *of* 1991



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THE BEST NEW PRODUCTS



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TOPS IN PALMTOPS

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DOWN-SIZED COOKIES

Mini-Oreos are the latest wrinkle in old-fashioned cookies packaged as handy snack foods. Rolled out by RJR Nabisco last summer in the Midwest and Southwest, the miniature version of baby boomers' favorite childhood cookie is flying off the shelves. The bite-sized Oreos join fast-moving Ritz Bits and Ritzese and Peanut Butter Sandwiches.



READ MY PRINTING

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THE BEST

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VIPER MANIA

It's a snorting brute right out of Motown's muscle-car tradition. The Dodge Viper blasts to 60 mph in 4.5 seconds. The throaty roar of its 400-horsepower, V-10 engine resonates in the pit of your stomach.

And its long, low, muscle-bound good looks draw stares aplenty. Chrysler developed it in a short three years—matching the speed of Honda and Toyota. Its price tag runs about \$50,000.



✓ TOPIARY HAND TOOL

The Woodzig Power Pruner domesticates the chain saw and transforms it into an easy-to-use hand tool for the garden. The Woodzig is specifically designed to be lightweight and compact for women and older folks. Instructions are color coded, and a pole-mounted version reaches top tree branches.



✓ LIGHT BATS FOR KIDS

Ultralight bats are making Mickey Mantles out of all of our kids. Speed is what sends a ball flying, and the lighter the bat, the

faster the swing. Eastern Sports' new B90U aluminum-alloy bat retails for \$130. A 34-inch bat weighs just 30 ounces.



✓ TERRIFIC TREKS

Tired of beachcombing or Club Med's obligatory hedonism? Try photographing dolphins off Florida, studying Thai architecture, paddling up the Amazon, or sifting through the remains of lost civilizations.

Ecovacations from the Sierra Club or Earthwatch in Watertown, Mass., cost an average of \$1,500 for two weeks.



✓ POWERBOOK PCs

Better late than never. With the introduction of its PowerBook computers, Apple Computer may have been one of the last major PC companies to get into the laptop market, but its customers don't mind. The three PowerBooks, costing between \$2,299 and \$4,599, are in hot demand and short supply across the U. S.

THE BEST PRODUCT DESIGN

■ GIMME SHELTER

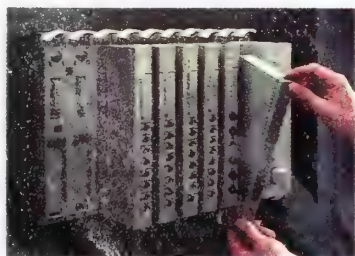
At \$750, it's pricey. But the "Big Dipper" tent by Moss Inc. in Camden, Me., uses simple geometry to provide 56 square feet of space for up to five sleepers. Supported by equal-length poles, the tents are

easy to pitch—and don't require stakes. Lighter, at 12 pounds, 4 ounces, they're also 50% stronger than conventional models.



■ 'PLUG AND PLAY'

It's small, modular, flexible, and easy to use—the new DEC networking system.



Designed in-house, the low-end set of computer-network products can be used by startups as well as multinational giants. "Plug and play" design allows for assembly without messy cables. An 8-port server can be stacked to accommodate dozens of computers.

■ WARM HANDS, GREAT GRIP

It's so flexible the Army wants it for U.S. troops in Northern Europe. The Flexor cold-weather ski glove provides terrific dexterity. Improved ergonomics halves the energy

needed to grip a ski pole—or a rifle. Designed by Dixie Rinehart, who created the NASA space suit gloves, for

Swamy USA. Models range from \$75 to \$125.



■ GRINDING IT OUT

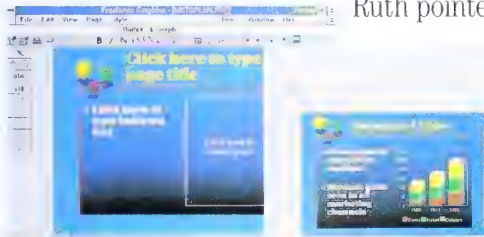
The cyclone grinder is proof that customer-driven design and speed-to-market are twin ingredients of commercial success. Development time was cut from 3½ years to 12 months, cost reductions improved margins by 200%, and market share tripled. Group Four Design of Avon, Conn., redesigned an old standby for Ingersoll-Rand.





It's been 59 years since anyone's felt this confident in front of a crowd.

It was the '32 World Series. With the Cubs riding him unmercifully from the bench, Babe Ruth pointed



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THE BEST MANAGERS

SCENT OF SUCCESS

The \$20 billion cosmetics industry has been recession-proof in the past. Not so this time. Robin Burns, the 39-year-old president of privately held

Estée Lauder, turned to innovative marketing by testing out mini "stores within stores" and attaching videos of SpellBound perfume in *Elle* magazine.



BANG-UP BROKER

Retail brokerage is one of the few industries to shine in 1991. Philip Purcell, chairman of Dean Witter Financial Services Group, cashed in on the

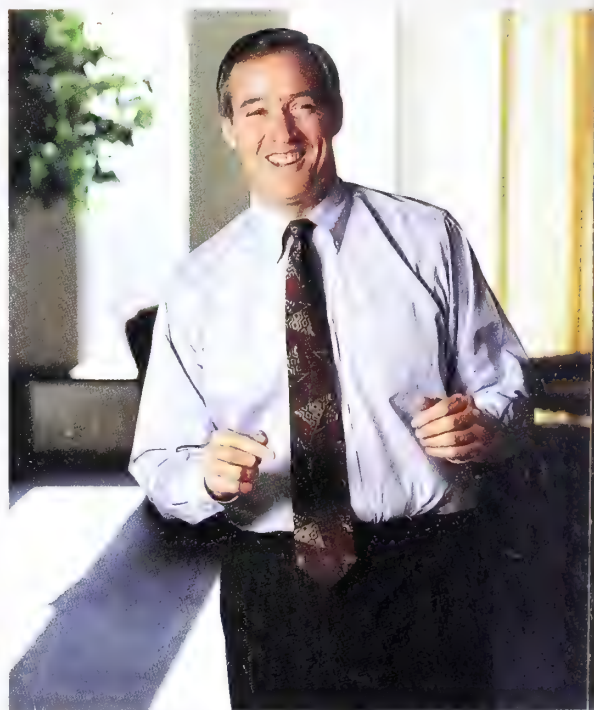
record-breaking Dow. Purcell also took parent Sears Roebuck's Discover Card to new heights, returning 21% on equity in 1991.



PRUDENCE PAYS OFF

When many insurers were scooping up junk bonds and real estate in the '80s, Donald Frahm, CEO of ITT Hartford Insurance Group, steered clear. Back

then, he was criticized as too conservative—but more. While many rivals lost money in 1991, Hartford turned in strong profits.



MARKETING OMPH

Michael Dell, the 26-year-old wunderkind of the computer world, led a spectacular year selling IBM clones through e-mail and other direct-market avenues. Dell Computer Corp. ranked No. 1 in J.D. Power & Associates' first-ever PC customer-satisfaction survey. Dell keeps very close to his customers, relying on their marketing input.



GE WHIZ

Dennis Dammerman is reshaping the role of CFO. As Jack Welch's right-hand man at General Electric, he is as likely to be found on the factory floor as in the controller's office. The 46-year-old, no-nonsense Dammerman, who grew up on a farm in Iowa, staunchly maintains that a CFO's job is more than bean-counting. He believes that benchmarks on quality, customer relations, and speed to market are as important as any accounting statistic. Dammerman is also a key player in GE's Work-Out program, a series of meetings between workers, managers, and executives to improve operations and cut bureaucracy.

THE BEST MANAGERS

▼ GIGABUCKS GATES

For Bill Gates, it was a stupendous year, thanks to Windows 3.0. As hard times socked much of the PC industry, Microsoft's revenue rose 56%, net income jumped 66%, and the stock hit \$100 a share, making the 36-year-old CEO worth \$4 billion. Gates's reputation as an aggressive competitor earned him respect—and a call from the FTC.



▼ GAINS AT THE GAP

Millard "Mickey" Drexler's tight focus on style, value, and hip advertising made The Gap one of the few retailing stars in a threadbare

industry. Its smart, simple styles and reasonable prices were tailor-made for consumers in a "give me value" mood. The Gap chain added 123 stores in 1991.

▼ ... A LENDER BE

In a year when banking was squeezed for profits, John McCoy's Banc One performed well—for the 23rd year in a row. McCoy avoided banking's real estate and LBO headaches and Banc One posted an 11.6% increase in loan growth in the first three quarters of 1991, led by credit cards and home equity and mortgage loans. McCoy boosted capital by \$500 million and picked up banks and S&Ls.





RHINESTONE FLYBOY

In an industry pummeled by the Gulf war and the recession, Herbert Kelleher has kept Southwest Airlines flying high. One of the few carriers to post a 1991 profit, Southwest is the leading no-frills, short-haul, low-fare airline. Flexible work rules and a generous profit-sharing plan help keep productivity high. So do the high jinks of CEO Kelleher himself, who has been known to dress up as Elvis.

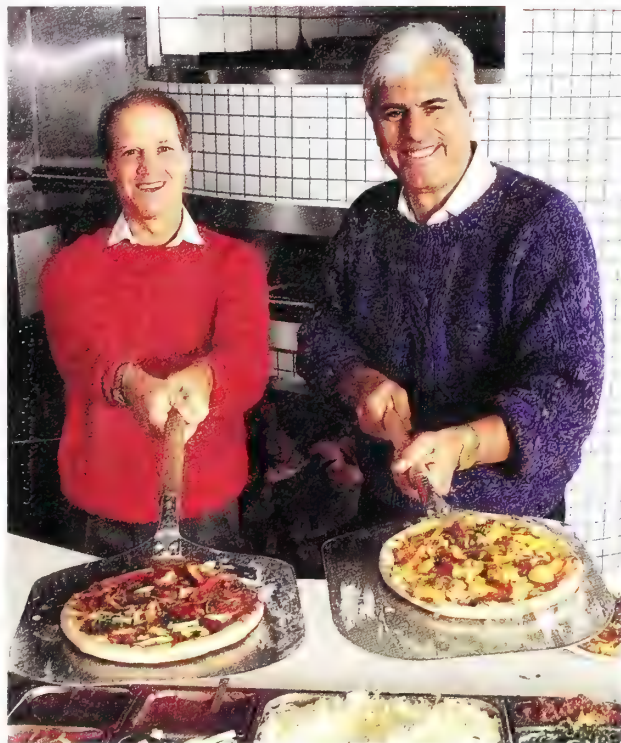
DRIVIN' DIESEL MAN

Detroit had one of its worst years in 1991, but not Detroit Diesel and its owner, Roger Penske. When he bought the company from GM in 1987, its share of the U.S. market for heavy-truck engines had fallen to 3.2%. By the end of last year, it was back up to 23%. What's Penske's secret? Get back to basics. Talk to your employees, and share the profits with them. That proves quality. Speed delivery of parts so they arrive in days, not weeks. Above all, keep close to your customers. Penske calls on them frequently.



TOP PHOTO: JEFFREY M. HARRIS; BOTTOM PHOTO: PETER ROQUELLEN, M. HARRIS, ABRAMSON

THE BEST ENTREPRENEURS



▼ HOLD THE TORTS

Rick Rosenfield and Larry Flax, co-owners of California Pizza Kitchens, are two Beverly Hills attorneys who gave up their white-collar criminal defense practice to bake designer pizzas. There are now 23 restaurants churning out barbecued-chicken pizzas and trendy pastas. By catering to the niche between cutthroat fast-food and pricey white-tablecloth joints, the restaurateurs raked in about \$55 million in revenues in 1991.



▼ COMPANY MAN

John D. "Jack" Goeken, 61, is the phone world's most prolific entrepreneur. In his early 30s, he founded MCI Communications. Then, he started the FTD floral network. Next, he began Airfone, which provides phone

service to airline passengers. In 1986, GTE bought him out. Now, Goeken is setting up a rival to GTE, In-Flight Phone Corp., which offers state-of-the-art digital phone, fax, and shopping services in airplanes.



▼ CLONE KING

Even as IBM, Apple, and Compaq scramble to reverse slowing PC sales, Gateway 2000's Ted Waitt is defying gravity. Sales at his mail-order computer company, which peddles IBM clones, more than doubled in 1991, to roughly \$600 million. The 29-year-old Waitt, who uses Holstein-spotted boxes, sold more PCs by mail than even mail-order pioneer Dell Computer.

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**7 UP AGAINST
THE LABEL**

David A. Kessler is revamping the beleaguered Food & Drug Administration. The new commissioner is cracking down on regulation violators by seizing misleadingly labeled orange juice and wiping "no cholesterol" labels off cooking oil. Even more important, Kessler is speeding up drug approvals for such diseases as AIDS, Alzheimer's, and cancer.



7 EARTH-SAFE SOFAS

Herman Miller is making environmental activism part of the furniture maker's fabric.

Virtually everything that's recyclable gets recycled. Bill Foley, Miller's office-furniture

research manager, has even banned the use of endangered tropical hardwoods.



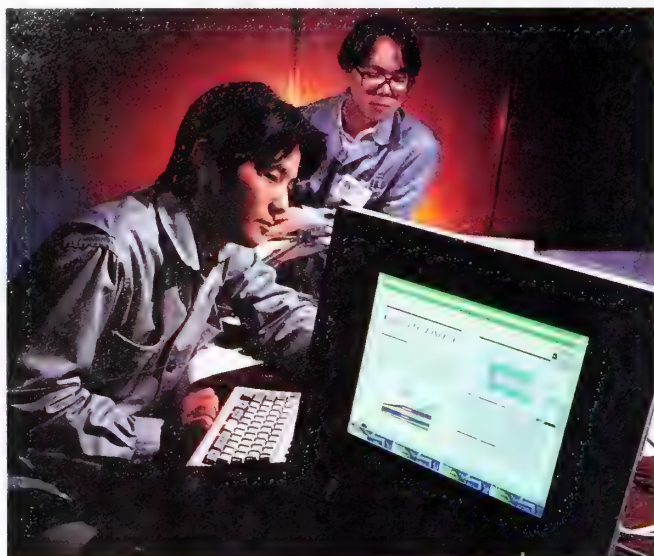
7 NIPPERS' NETWORK

Kids undergoing bone-marrow transplants must be isolated in sterile rooms for up to two months to prevent infection. Volunteers at GTE Laboratories in Waltham, Mass., started the KidBits project to

help. They developed a computer system for Boston's Children's Hospital that allows chronic and acute care kids to play games, create artwork, or simply communicate with friends via computer.

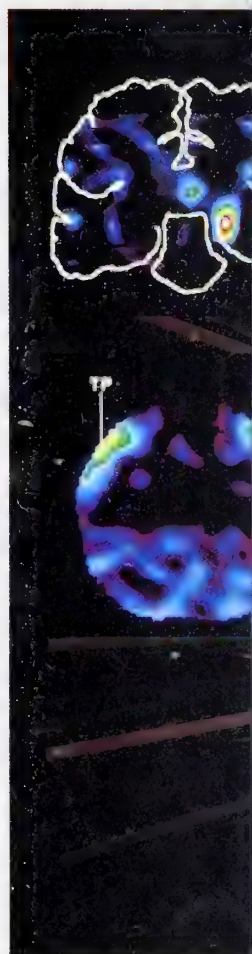
THE BEST

SCIENTIFIC INNOVATION



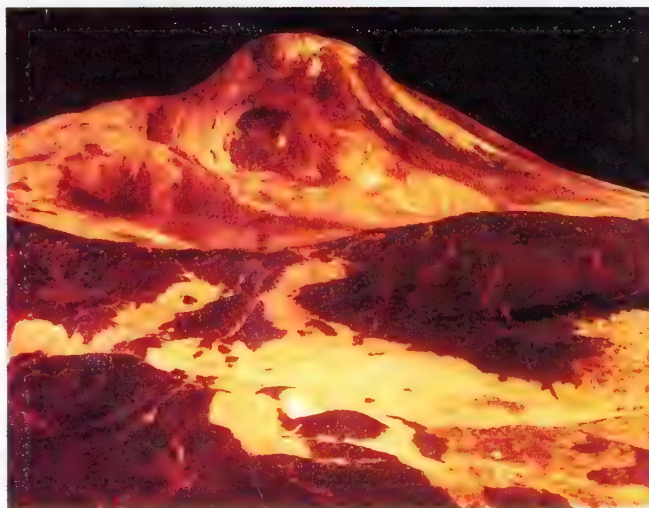
BRAIN CHECK

New medical technology such as this PET scanner is allowing brain researchers to peer deep into the mind. By tracking increased blood flow, one scan (top right) shows brain areas active during a memory test. A second (bottom right) reveals the brain region where people feel one form of anxiety. The scans can also pinpoint the location of sad thoughts. And by unlocking secrets about how the brain works, researchers are closing in on once-intractable diseases. Already, there are new drugs that reduce injury after stroke and new techniques for inserting cells or genes directly into victims' brains to supply missing chemicals.



SCREEN GEMS

In the white-hot race to develop bigger, brighter displays for computers, the most exciting news comes from Canon. Building on French research, Canon fashioned 15-inch screens from exotic materials known as ferroelectric liquid crystals. The image quality rivals the best LCDs from industry leaders Sharp, Hitachi, and NEC. By 1995, Canon predicts, its screens could blossom into a \$2.3 billion market.

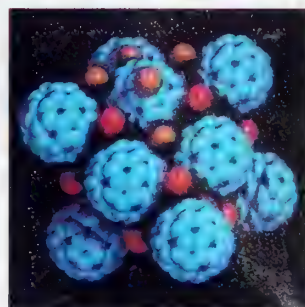


VENUS LAID BARE

Orbiting high above Venus, NASA's Magellan space probe sent back stunning images of the mystery planet's surface. The craft's cloud-piercing radar "eye" spotted

volcanoes and fresh lava flows—evidence of active geologic tumult far more recent than scientists had imagined. The striking pictures offered hints of the earth's own origins.





■ SUPER DOMES

Molecules of carbon shaped like a futuristic sphere, buckyballs are turning out to be a scientific gold mine. Researchers have discovered that the intriguing substance can act as a superconductor, a potent catalyst, or a tool for making films of diamond. Now comes the hard part—commercializing the discovery.

▼ MEAN AND GREEN

Honda's lean-burning engine sets a new standard for environmentally correct autos. The green machine guzzles less fuel at lower temperatures, emitting fewer nasty oxides of nitrogen. And when dropped into a redesigned Civic hatchback, it boosts mileage 55%, to 48 mpg in town, 55 on the highway—without wimping out on hills. Honda scored in the Civic vx by adapting technology from the high-powered NSX and Formula 1 engines.



▼ GENE GENIES

Dr. Steven Rosenberg is ushering in a new age of genetics. In 1991, he helped identify scores of genes and developed ways to deliver correct copies of faulty genes to disease

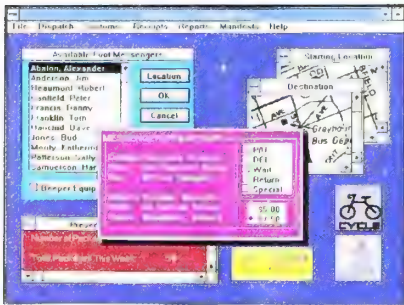
victims. At the National Institutes of Health, Rosenberg is now slipping new genes into skin cancer patients, hoping to vaccinate them against spreading tumors.



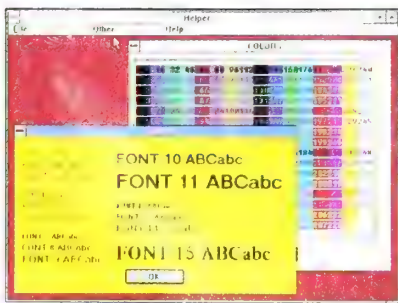
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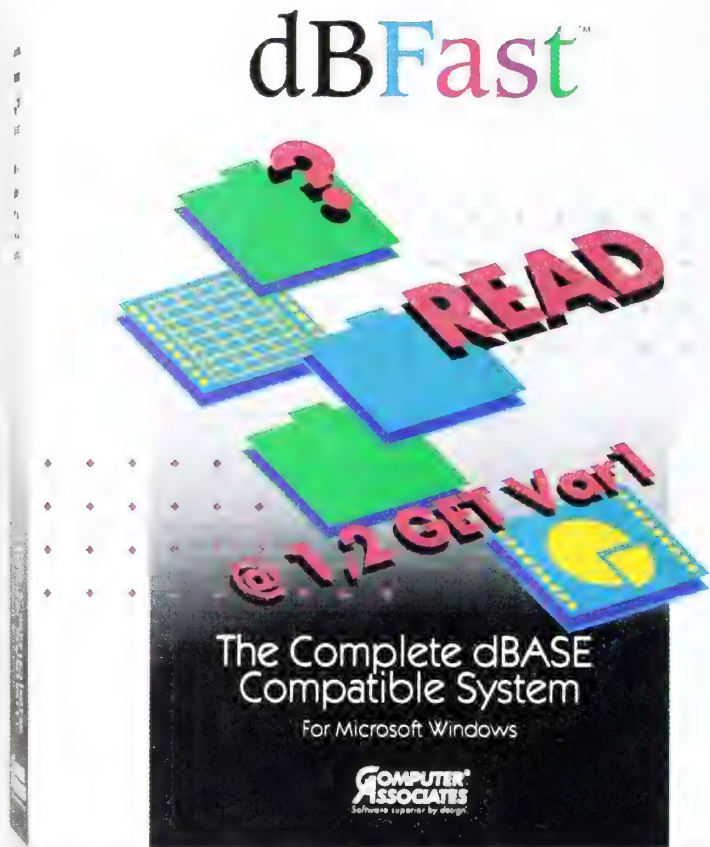
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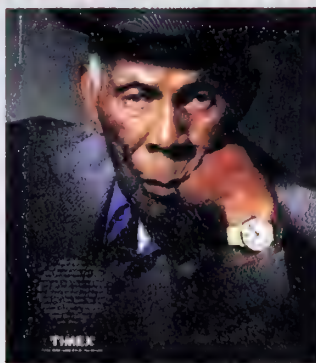
THE BEST

ADVERTISING

IN THE MIND'S EYE

No photographs, in an ad for a camera maker? Sounds odd, but it worked brilliantly in a print campaign for Nikon. Scali, McCabe,

Sloves created ads that feature four inky-black squares. Copy lines inform readers that they're missing some memorable images. Example: "An American President lifting his pet beagle up by its ears." The slogan says: "If you can picture it in your head, it was probably taken with a Nikon."



'TOOK A LICKING...'

Timex gives new vigor to its time-honed slogan by showcasing real-life survivors. Each of the watchmaker's 13 subjects has "kept on ticking." One is a 121-year-old man who survived the World War I trenches. Another is a terrier who dug himself out after being buried alive by mistake. A third is a woman who survived a near-fatal hit by a bowling ball plummeting three stories. Ad agency Fallon McElligott photographed them all in an arresting head-on style.



A COLA-WAR HIT? UH-HUH

Ray Charles belted out "You've Got the Right One, Baby, Uh-huh" on the Super Bowl telecast. By halftime, he and his backup singers had already given Diet Pepsi a winner. Why else was General Norman Schwarzkopf sipping it at the peace talks after the gulf war? Agency: BBDO Worldwide.



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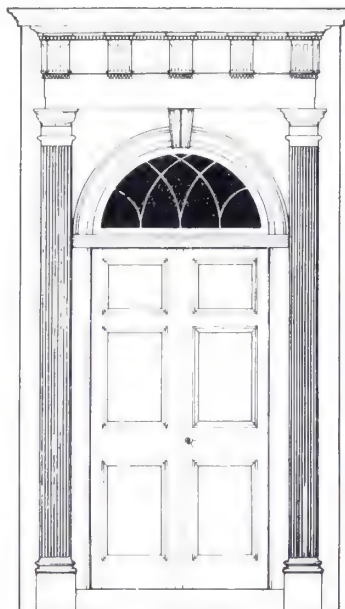
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Form **8829**

Department of the Treasury
Internal Revenue Service

Name of proprietor

Expert Business Use of Your Home

► File with Schedule C (Form 1040).

► See instructions on back.

OMB No. 1545-0047

1991

Attachment
Sequence No. 66

Your social security number

Part I Home Used for Business

1	Area of home used for business (see instructions). Include area used for inventory storage if it does not meet exclusive use test	1
2	Enter the result as a decimal (amount)	2
3	Enter the number of hours used per year (do not use more than 500 hours)	3
4	Enter the result from line 2 multiplied by the number of hours used per year (line 3) on line 2	4
5	Enter the result from line 4 multiplied by the number of hours used per year (line 3) on line 4	5
6	Enter the result from line 5 multiplied by the number of hours used per year (line 3) on line 5	6
7	Business percentage. Multiply the result from line 6 by the business percentage (line 7) on line 6	7

Part II Figure Your Deductions

8	Enter the amount from line 7	8
9	Casualty losses	9
10	Deductible mortgage interest	10
11	Enter the result from line 8 plus the result from line 9 plus the result from line 10	11

EDITED BY AMY DUNKIN

Taxes

THE IRS TIGHTENS THE SCREWS ON HOME-OFFICE DEDUCTIONS

When Neil M. buys a new lamp, has a painting reframed, or reupholsters his couch, he deducts the costs from his federal taxes. He even writes off his cleaning lady, whom he pays in cash. In the two years since he started an executive search firm in his Manhattan apartment, he has entered such expenses on Schedule C, the form self-employed people must file to report the costs of running a business. He also takes a third of his rent as a home-office deduction. "I get to write off about \$15,000 a year, which in a bad year is very helpful," he says.

But Neil M.'s 1991 returns may get much closer scrutiny. From now on, Schedule C filers who take a home-office deduction must fill out a new form, calculating how much

of their living space they use exclusively for business and applying the percentage to mortgage interest or rent, maintenance, utilities, and other allowable deductions. The result gets entered as a separate line item on Schedule C, apart from travel, equipment, and other business expenses.

While the rules on home-office deductions haven't changed, tax experts think the new Form 8829 will force people who work at home to be more careful in reporting their expenses. "The IRS definitely has some purpose in mind for this form," says David Yasukochi, senior tax manager at Price Waterhouse in New York.

You're entitled to the

home-office deduction if a portion of your home is used exclusively as your principal place of business. According to the instructions, you can count rooms, measure square feet, or use "any other reasonable method" to calculate

how big that portion is. Part I of Form 8829, you multiply the result by the number of hours you work every year to come up with a decimal figure. You use that percentage on Part II to find out how much of your casualty loss

mortgage interest, real estate taxes, insurance, maintenance, repairs, and utilities you may deduct. On Part III, you can figure your home depreciation and apply the business-use percentage against that. **IRS FROWNS.** Obviously, the IRS can't know whether your teenager watches Monday night football in the same room where you meet clients during the day. But by separating home-office expenses from other business costs,

HOW TO KEEP THE AUDITOR AWAY

- Don't file the form if you're a full-time employee who sometimes works at home. The IRS will probably balk
- Don't try to claim more than 50% of the total area of your home for exclusive business use
- Get a separate phone line for your business. Prorating basic telephone service will probably raise eyebrows
- Unless a second job supplies at least half of income, moonlighters shouldn't take the deduction

DATA BW

form makes at-home workers more visible to the IRS. So, people who work at home should be prepared to back up their claim.

For example, individuals employed full-time by a company that lets them work at home one or two days a week must take the home-office deduction, but the IRS frowns on the arrangement unless the arrangement is specifically for the employment-convenience. In such a situation, get a letter from your employer stating that someone else uses your office those days.

Even if you're self-employed and use part of your home exclusively for work, having another office outside your home may disqualify you. In fact, you may want to keep the outside office. The IRS will see rent expense on your Schedule C," says Yasukochi, "and it's likely to kick you out." You might then have to prove that your home is your principal workplace.

BIDDEN. Another purpose of the new form is to stop business owners from using home-office deduction to grow or increase a business. That's strictly forbidden under IRS rules, but Schedule C alone made it easy for taxpayers to do, because home-office expenses were lumped with other costs. Now, there's a hierarchy of deductions you may take, beginning with operational costs and followed by home expenses.

You may deduct the rest—utilities, maintenance, repairs, and other costs—only to the extent that your remaining profit allows. However, Form 8829 does let you carry over any excess deductions to next year. So keep your expense records.

The IRS is also going after people with full-time jobs who might and take a big home-office deduction. Even if you have a legitimate second business, the IRS won't treat it as your principal employment unless it supplies a significant portion of your total income. And there's another case in which taking the home-office deduction may not be worth it while, even if you work

only at home. If you plan on selling your house in the near future, you could wind up paying capital-gains taxes on the portion you call your office, instead of deferring the gains into your next house, as you normally can with a residence. This can be especially onerous if you're also claiming depreciation on your home office, since you're lowering the base for figuring your

gain. Homeowners who plan on selling should either continue taking deductions for mortgage interest, taxes, and utilities but stop depreciating the home office, or should give up the home-office deduction altogether.

Renters who work at home, naturally, don't have this problem. In fact, they'll be able to skip most of Form 8829, simply figuring their

home-office decimal and entering a portion of their rent under "other expenses." Still, Yasukochi recommends that renters, too, begin keeping more meticulous records of their home-office use, including a daily log of phone calls and the names of clients who come for meetings. And he'd probably advise Neil M. to pay his cleaning lady by check.

Joan Warner

Dining

CHOWING DOWN WHERE THE CHEF WORKS

With all the wonderful meals I've eaten, I've never had a dining experience quite like the one I had recently at Toronto's King Edward Hotel. Thanks to a new "chef's table" program at Chiaro's Restaurant in the hotel, seven others and I got to feast on an eight-course meal of chef's specialties served right in the bustling kitchen.

Adding to the thrill of being backstage at a world-class restaurant, Executive Chef John Higgins—a colorful Scot who used to cook for Britain's royal family—personally selects and serves the food. A born entertainer, Higgins can discuss topics ranging from what Queen Elizabeth likes for breakfast (usually just

toast) to the quality of the salmon fishing at Balmoral Castle (superb, thank you). He'll also explain how he prepared each dish. My favorite: filet of Scottish salmon smoked over English Breakfast Tea and topped with a roasted hazelnut crust.

EIGHT HEADS. The chef's table, which can accommodate parties of up to eight people, is available Tuesday through Friday nights. To reserve, call the King Edward (416 863-9700) and ask for Jeremy Roncoroni, manager of Chiaro's. He'll discuss your preferences, including foods you wish to avoid, as well as wine selections. But unless you insist on something specific, the menu will be a surprise created by Higgins from ingredi-

ents that look best that day.

There's a fixed charge of \$100 Canadian (about \$88 U.S.) per person for the food, not including service or wine. That price is high by Toronto standards, but you're getting an experience far more memorable than the typical meal.

The King Edward is only one of a number of top-flight restaurants now inviting diners into the inner sanctum. Manhattan's renowned French seafood restaurant, Le Bernardin, offers a glassed-in "tasting room" that looks into the kitchen. Parties of up to four receive a kitchen tour and an eight-course menu selected by the chef for \$150 per person, not including wine or tip. Brennan's of Houston, which features Southwestern food with a Creole accent, has a kitchen table for up to five, but you order off the regular menu. The price: about \$40 a person.

TO MARKET. And the Patina Restaurant, perhaps this sea-

son's hottest Hollywood eatery, has just instituted a program that allows you to spend a full day in its kitchen. It starts with a 6 a.m. trip to the market, includes time at each of the kitchen's main stations, and concludes with a custom-prepared dinner for you and seven guests. The total cost: \$1,250, including wine and a monogrammed chef's jacket.

Any of these deals is worth considering if you are looking to make a special impression or simply want to have a memorable eating experience.

Bill Symonds



JOHN HIGGINS PRESENTS A DISH IN THE KITCHEN OF CHIARO'S IN TORONTO

Smart Money

WHEN CREDIT-CARD ISSUERS SAY 'RELAX,' DON'T!

Many financial institutions promote credit-card use by letting you skip a payment once or twice a year without penalty. But if you're tempted to take up the offer as holiday bills come due, it can cost more than you might think.

Bankcard Holders of America (BHA), a consumer group, agrees that card users who accept the deal avoid a late charge or delinquent mark on their credit reports. But you err if you think any finance charges that accrue "can't be much—just a

terest, or 1.5%. But if you charge, say, an additional \$1,500 before the next bill arrives, it sharply boosts your average daily balance over a two-month period. Instead of \$7.50, you could owe two or three times that amount. So you end up paying more than 18% for the privilege of borrowing \$500 for a month.

To help you find cards with no annual fees and low interest rates, BHA (800 553-8025) sells updated lists of issuers for \$4. But check the fine print. Some issuers—such as Delaware's Colonial National Bank, which promotes rates of 14.95% to 16.95%—compute interest the most expensive way, with "two-cycle" billing. It adds any unpaid interest from last month's charges to the interest due on the average daily balance over the new period.

An example of how much it can cost you appears in a booklet, *Downeaster Consumer Guide to Credit Cards* (\$1.50 from State House Station #35, Augusta, Me. 04333). Let's say you make a \$200 purchase on Nov. 2, then ignore your December bill. You then charge another \$200 on Dec. 2. At an 18% interest rate, with standard average-daily-balance billing, you would owe just \$3 in interest if you promptly paid the \$400 balance on your next bill. But if the charges went on a card using two-cycle billing, the interest is \$8.80—more than a 26% annual rate.

If you're making a partial payment, do it soon after you receive the bill. The more days your average daily balance is low, the less interest you pay. *Don Dunn*

THE HIDDEN COST OF CHARGING

If you charge \$200 on Nov. 2, then skip your December payment, and charge \$200 on Dec. 2, your January bill (at 18%) may show:

BALANCE OWED	\$ 400.00
Interest on average daily balance, 29 days in November, 1.5% x \$193	2.90
Interest on avg. daily balance, 30 days in December, 1.5% x \$393 (\$193 plus \$200)	5.90
TOTAL	\$408.80
REAL INTEREST RATE	26.4%

DATA: MAINE CONSUMER CREDIT PROTECTION BUREAU

month's interest on the amount I'm carrying over."

It doesn't work out that way. Once you skip payment on a month's purchases—or make a partial one—you may lose the "grace period" in which you can pay the bill in full to avoid interest on later charges. That's because most card issuers calculate interest on the account's average daily balance retroactive to the first purchase.

FINE PRINT. Suppose your balance on the December bill is \$500 and the annual interest rate is 18%. By holding off the \$500 payment until January, you might figure to owe just \$7.50—a month's in-



THE 500SEL: GADGETS GALOR, BUT MAYBE A LITTLE TECHNO-OVERKILL

Autos

THE NEW MERCEDES: 'S' IS FOR SILENT, SPEEDY, SUMPTUOUS

Mercedes' new top-end S-class sedans make you yearn for the autobahn. Cruising at 80 mph, the redesigned cars are so hushed and steady, you would swear you were only doing 55. Mercedes-Benz offers five versions of what is essentially the same car, with different-size wheelbases and engines and a list of standard features that grows with price.

The whisper-quiet ride makes long trips more comfortable. It's the result of improved aerodynamics, as well as automob's first double-glazed side windows. They are just one of a host of technical innovations on one of the world's finest—and most expensive—mass-production cars. Mercedes last overhauled the line in 1980.

The S-class has power everything, thanks to 52 tiny electric motors. Push the trunk release and a chrome handle slides out the back of the deck lid. Flip a switch on the console, and both outside mirrors fold flush to help squeeze through those tight spots.

The list of pampering gadgets goes on. Some, such as the trunk handle, border on techno-overkill. Others, such as a charcoal filter that cleanses diesel exhaust and other noxious odors from incoming air, are improvements over the old models. It's stan-

dard on the two long-wheelbase models, the 500SEL and 600SEL, and a \$490 option on three shorter versions.

Inside, these cars feel just as sumptuous as the old class, but more spacious. The supportive leather seats are just in every conceivable direction. Instruments are large and easy to read; dashboard controls are simple to operate. One trouble spot: Twin automatic thermostat controls are small and difficult to adjust quickly. And with 3 inches more width and wheelbase, there's plenty of leg and elbow room.

CUSHY. Even with their prodigious mass—they average 7,000 pounds more than the ones they replace—the S-class cars feel remarkably nimble, thanks to a range of new powerful engines. The 400-horsepower V-12 in the top-end 600SEL launches it to 60 mph in just 6.3 seconds—fast as a Corvette. The 500SEL and 400SE, with their 280-horsepower V-8s, are nearly as quick. And the low-end 300SE, with a 228-horsepower 6-cylinder engine, is no slouch, either.

All those goodies carry a high price tag. With luxury and gas-guzzler taxes and a \$350 transportation fee included, the S-class sedans range from \$75,790 to \$142,400. Steep as that sounds, there's already a waiting list for the new models. *David Wood*



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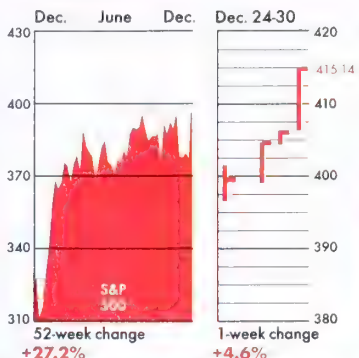
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Investment Figures of the Week

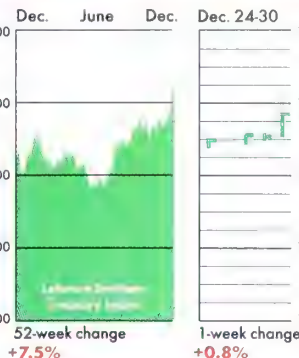
MENTARY

It's bad news for savers is turn-out to be manna from heaven for stock market investors. Equities need to surge into record territory as interest rates fell across the board in the wake of the Fed's percentage-point cut in the discount rate. Since that cut, the Dow has risen almost 250 points. Three-month Treasuries are now yielding 3.96%, vs. 6.7% a year ago. Equities have far outdistanced foreign stocks. And as the five Portfolios on this page show, stocks have been the pre-investment of 1991.

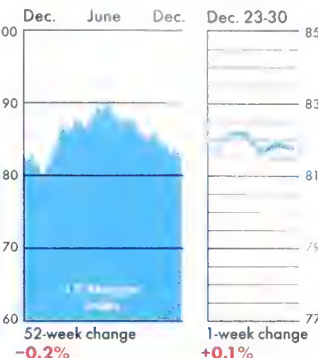
STOCKS



BONDS



THE DOLLAR



MARKET ANALYSIS

STOCKS	Latest	% change Week	% change 52-week
JONES INDUSTRIALS	3163.9	4.7	21.2
COMPANIES (Russell 1000)	219.5	4.8	29.6
COMPANIES (Russell 2000)	187.9	5.6	42.7
COMPANIES (Russell 3000)	233.1	4.8	30.2

HIGH STOCKS	Latest	% change (local currency) Week	% change 52-week
ON (FINANCIAL TIMES 100)	2420.0	3.2	13.7
O (NIKKEI INDEX)	22,983.8	5.5	-3.6
NTO (TSE COMPOSITE)	3505.9	3.8	8.2

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	3.96%	3.87%	6.7%
30-YEAR TREASURY BOND YIELD	7.45%	7.52%	8.2%
S&P 500 DIVIDEND YIELD	3.02%	3.17%	3.6%
S&P 500 PRICE/EARNINGS RATIO	23.2	22.1	15.0

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 26-week moving average	386.2	384.9	Positive
Stocks above 26-week moving average	49.5%	39.7%	Neutral
Speculative sentiment: Put/call ratio	0.32	0.49	Neutral
Insider sentiment: Vickers sell/buy ratio	1.75	1.86	Positive

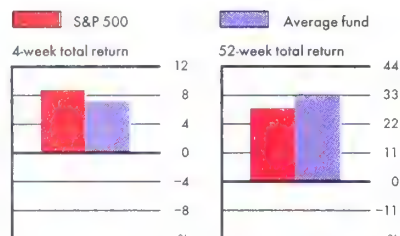
INDUSTRY GROUPS

1-WEEK LEADERS	% change 4-week	% change 52-week	Strongest stock in group	% change 4-week	% change 52-week	Price
MACHINE TOOLS	40.5	20.6	CINCINNATI MILACRON	54.1	9.3	11 3/4
REBUILDING	29.8	86.4	KAUFMAN & BROAD HOME	33.6	98.6	17 7/8
HEALTH CARE SERVICES	20.9	68.8	MANOR CARE	29.2	51.8	26
INSURANCE AND LOANS	19.3	48.1	GOLDEN WEST FINANCIAL	20.4	69.7	42
PHARMACEUTICALS	19.0	52.9	GILLETTE	24.9	71.8	53 1/4

1-WEEK LAGGARDS	% change 4-week	% change 52-week	Weakest stock in group	% change 4-week	% change 52-week	Price
COAL MINING	-10.8	-22.9	PLACER DOME	-17.7	-39.2	9 7/8
REAL ESTATE INVESTMENT TRUSTS	-6.7	6.5	LOMAS & NETTLETON MORTGAGE	-28.6	-52.4	1 1/4
OIL AND GAS DRILLING	-5.0	-40.7	HELMERICH & PAYNE	-9.1	-27.2	18 3/4
NATURAL GAS DISTRIBUTION	-4.4	-18.6	ARKLA	-18.3	-40.5	11 3/4
NATURAL GAS	-4.4	-17.6	SANTA FE ENERGY RESOURCES	-25.9	-47.8	7 1/2

MUTUAL FUNDS

LEADERS		LAGGARDS	
Week total return	%	Four-week total return	%
PEARSON MULTIPLE OPPORTUNITIES	23.8	STRATEGIC INVESTMENTS	-14.4
M CAPITAL DEVELOPMENT	17.5	UNITED SERVICES GOLD SHARES	-13.8
M STOCK APPRECIATION	14.8	STRATEGIC GOLD/MINERALS	-13.6
52-week total return	%	52-week total return	%
PENHEIMER GLOBAL BIO-TECH	111.9	STRATEGIC GOLD/MINERALS	-27.3
M CAPITAL DEVELOPMENT	98.6	FIDELITY SELECT ENERGY SERVICE	-22.8
AMERICAN HERITAGE	95.8	RUSHMORE PRECIOUS METALS INDEX PLUS	-21.8



RELATIVE PORTFOLIOS

Amounts sent the present of \$10,000 invested one year ago	U. S. stocks	Treasury bonds	Foreign stocks	Money market fund	Gold
Percentages indicate day total returns	\$12,511 +4.33%	\$11,708 +2.33%	\$11,142 -1.65%	\$10,522 +0.09%	\$9,539 0.00%

on this page are as of market close Monday, Dec. 30, 1991, unless otherwise indicated. Industry include S&P 500 companies only; performance and share prices are as of market close Dec. 27.

Mutual fund returns are as of Dec. 27. Relative portfolios are valued as of Dec. 24. A more detailed explanation of this page is available on request.

THE WEST THAT CAN SAY YES TO YELTSIN

The dissolution of the Soviet Union presents the U.S. and the West with enormous opportunities, as well as many perils. The trappings of Soviet power, including ultimate control of the world's biggest nuclear arsenal, have been assumed by Russian President Boris Yeltsin. Now Yeltsin is trying the most dangerous—yet most necessary—step toward building a market economy: removal of nearly all price controls in Russia.

If all goes as planned, goods will flood into stores because prices will no longer be set artificially low. But if the goods don't show up in quantity, there could be bloody riots, a lesson learned the hard way by Nikita Khrushchev when he tried limited price hikes in 1962. Should violence erupt, hopes of progress toward greater democracy and increasing modernization of the economy could be drastically dimmed.

That's why President Bush has proposed an emergency conference later this month to coordinate Western aid to the former Soviet Union. His initiative should be applauded, provided it results in prompt and truly useful assistance. Others have proposed a neo-Marshall Plan, but such grandiose schemes aren't realistic. After World War II, the victorious Allies controlled the political show in vanquished Germany and Japan. Today, the West has no such clout in the former Soviet Union.

What kind of aid then? The most cost-effective way would be a currency stabilization fund financed by major free-market powers. A ruble fund is the most promising way to support long-term change. That could be achieved by forming a currency board to issue a new money supply or a remade ruble backed by a monetary stabilization fund made up of hard currencies—including the mark, dollar, and yen. Big money, up to \$15 billion, would be needed for the fund. Raising such a sum wouldn't be easy in today's recessionary climate. But the burden would be eased if major powers such as Germany, the U.S., and Japan all kicked in—while also setting up monetary controls to protect the fund. A hard ruble would do much to cement the new commonwealth.

AMERICA'S NEW EDGE IS LOW-COST CAPITAL

With the decisive cut in the discount rate from 4.5% to 3.5% on Dec. 20, the Federal Reserve Board and Chairman Alan Greenspan have shown dramatically that they will no longer pussyfoot around how to get the stagnant economy moving again. Much has been made of the impact the cut may have on consumer confidence, and hence spending. But the real benefit of the new, vigorous Fed action will come from the effect it has on business investment and the direct stimulative effect business investment has on generating economic growth.

The cut by the Fed lowers the cost of capital for business in two ways. It lowers the interest rate at which companies can borrow, either from banks or by issuing their own bonds. Second, by giving the stock market a shot in the arm, the cost of capital raised by selling equity has been drastically reduced. It is much cheaper to sell equity right now because with stock prices higher, companies have to give up fewer shares to raise the same amount of cash. This, incidentally, gives the U.S. an enormous competitive advantage because the Japanese stock market is hovering around its 1991 low. In addition, debt-laden corporations can restructure their balance sheets by refinancing their existing debts at lower rates, thus freeing up cash flow for investment (page 23).

Now is the time for U.S. companies to invest for growth. The bean counters have had their day: U.S. companies are not going to generate growth by cost-cutting alone. The best way to guarantee growth is for business to invest. Over the short run, that will ensure a recovery. Long term, it will get U.S. business back on track toward greater competitiveness and productivity.

FOR JAPAN AND THE U.S., IT'S TIME TO TANGO

President Bush's original goal for his visit to Japan was to encourage Tokyo to play a more active role as a "global partner" with the U.S. Instead, the Jan. 7-10 visit has been turned into a trade mission with the addition of 21 corporate chiefs. With this entourage, Bush hopes to defuse critics' charges that he has been ignoring U.S. economic problems—including the \$41 billion 1991 trade deficit with Japan.

If Tokyo continues its reluctance to peel back its many-layered barriers to imports from the U.S., the trip will only give fresh ammunition to U.S. protectionists. To help break the deadlock, the U.S. should drop one key demand: that Tokyo open its highly protected rice market to imports. For the U.S., rice is only one of many agricultural export commodities, but for Japan it is an emotive issue because rice is a symbol of Japanese culture as well as a basic food.

In addition, U.S. leaders should acknowledge that Japan is not to blame for many of America's trade problems, including the low levels of U.S. savings and investment. In return, Japanese leaders must recognize that fast action to curb that country's trade surplus is essential in order to head off a political backlash in the U.S. Tokyo has often promised but failed to deliver on market-opening measures from fair treatment for U.S. suppliers by Japanese government agencies to stepped-up spending on housing and roads to spur import demand.

In world trade, it is simply untenable for one country to rack up huge surpluses year after year. Both the U.S. and Japan need each other, and both sides have legitimate complaints. The U.S. must take the necessary steps to restore long-term competitiveness. And Japan must do more to internationalize its economy and raise the standard of living for its people. It takes two to tango. Let the dancing begin.

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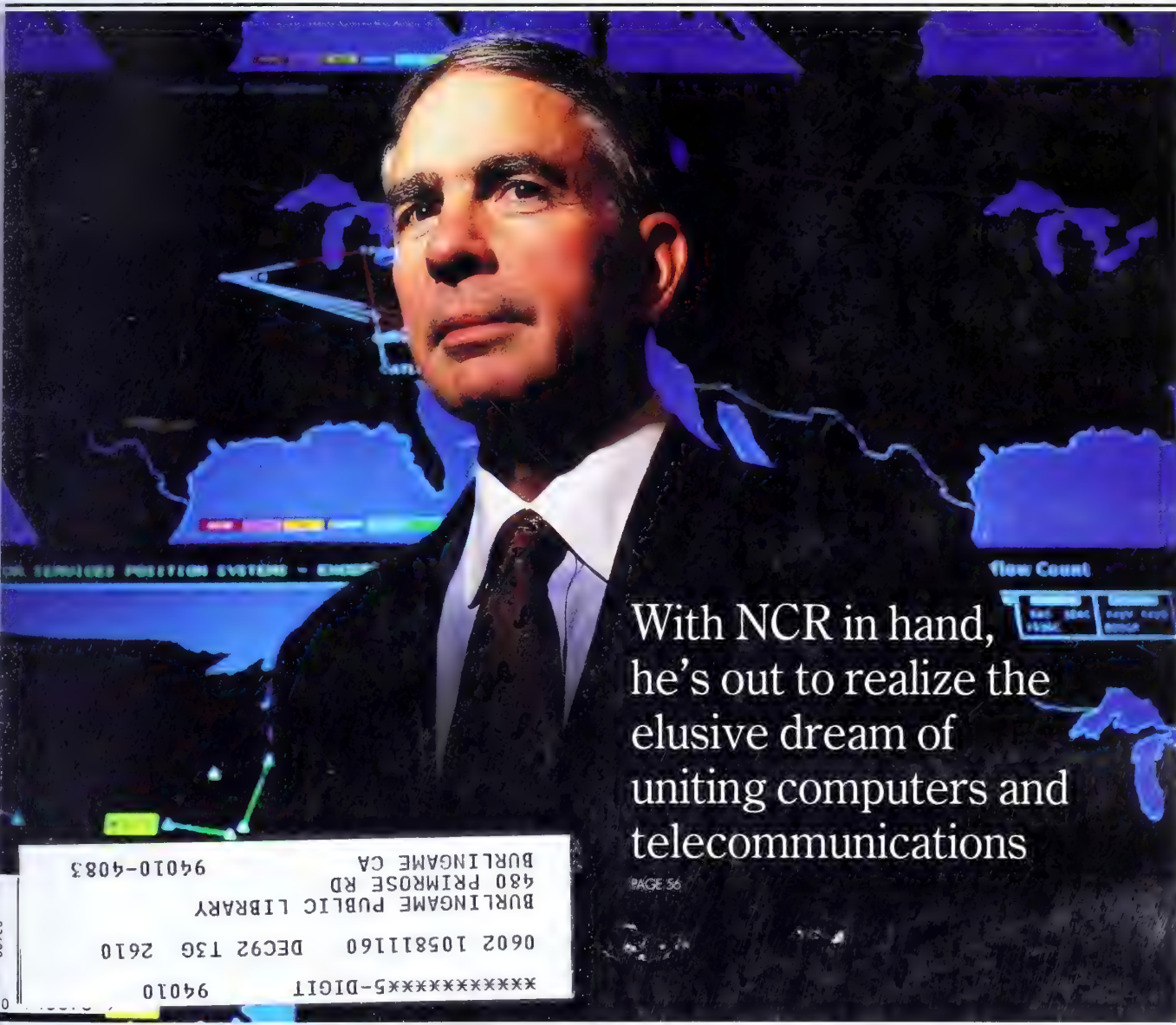
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BOB ALLEN'S TWO-IN-ONE STRATEGY



With NCR in hand,
he's out to realize the
elusive dream of
uniting computers and
telecommunications

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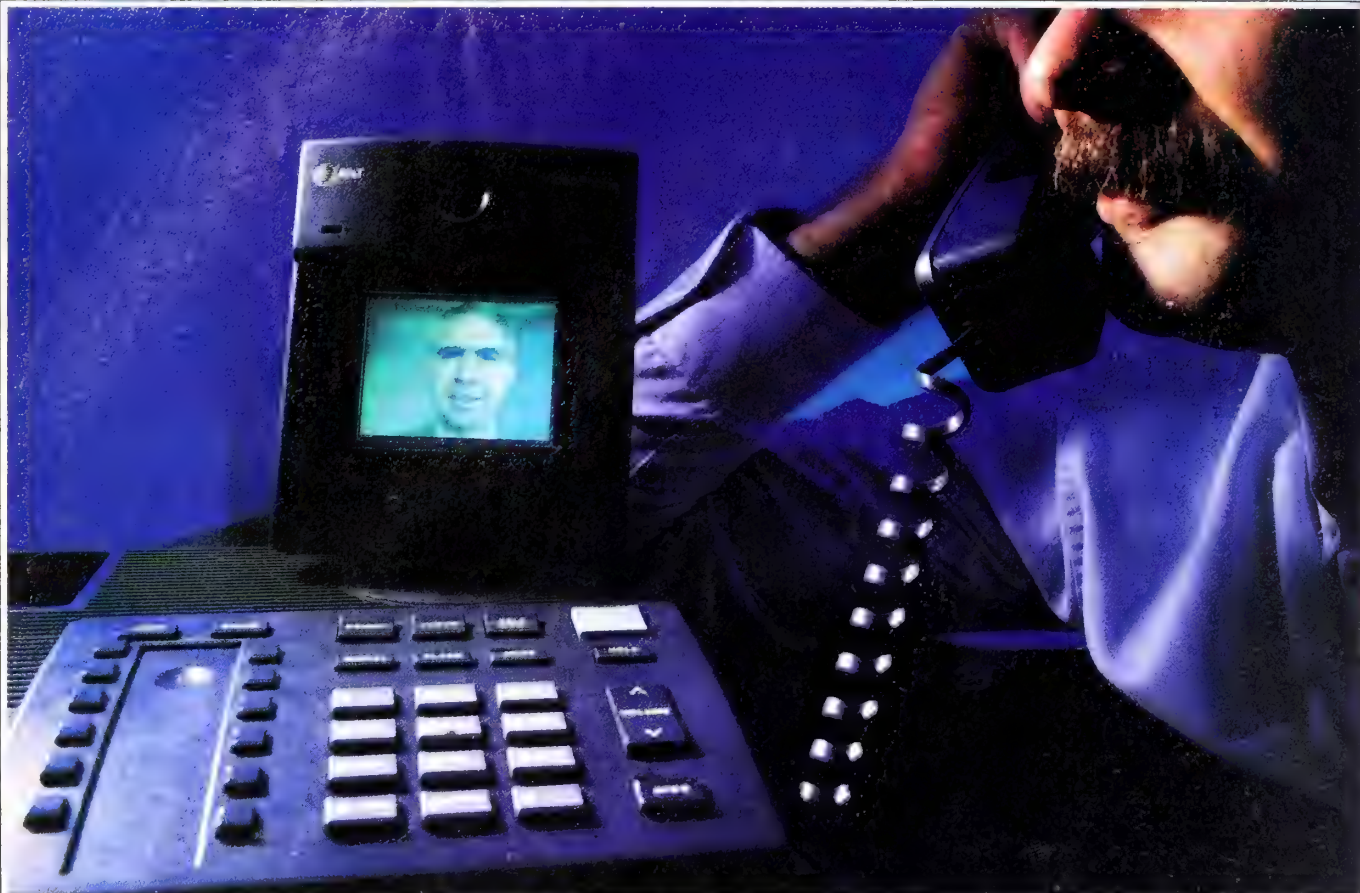
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TALKING PICTURES: AT&T'S NEW VIDEOPHONE 2500 SQUEEZES MOVING IMAGES ONTO STANDARD PHONE LINES

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Bob Allen has cut costs, fended off long-distance rivals, raised profits, and impressed Wall Street. So why isn't AT&T's boss satisfied? He has yet to meet his goal of a global telecommunications network of equipment, information, and services that no other single source can offer. Bagging NCR helps. But when will Allen reach out and touch his dream?

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With the State of the Union address imminent, the Administration finally gets to work on a health care plan

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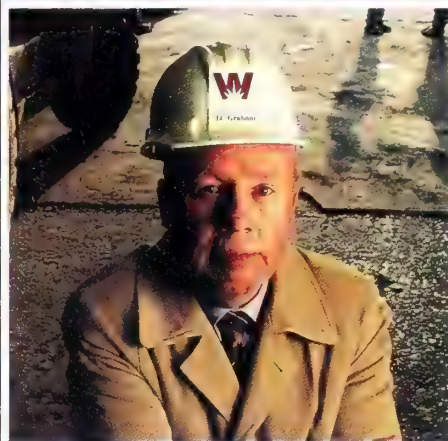
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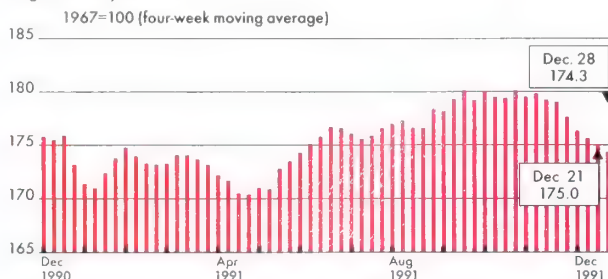
A patient vision at AT&T

Toward entrepreneurial government

BusinessWeek Index

PRODUCTION

Change from last week: -0.4%
Change from last year: 0.6%

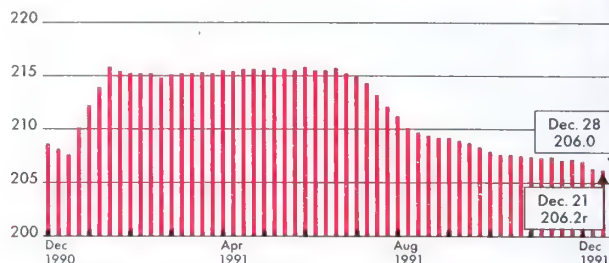


The production index fell for the week ended Dec. 28. Seasonally adjusted output of electric power, coal, paper, lumber, and rail-freight traffic decreased. Steel and crude-oil refining output increased, while paperboard production was unchanged. Plant closings for the Christmas holiday meant no auto or truck production. Before calculation of the four-week moving average, the index fell to 168.9 from 177.2. In December, the index declined to 174.3, from November's 177.6.

BW production index copyright 1992 by McGraw-Hill Inc.

LEADING

Change from last week: -0.1%
Change from last year: -2.0%



The leading index was little changed for the week ended Dec. 28. Stock prices were sharply higher, reflecting the recent Wall Street rally. Bond yields were lower, and business failures fell. On the negative side, the growth rates for M2 and materials prices deteriorated. Data for real estate loans were unavailable. Before calculation of the four-week moving average, the index increased to 206.5 from 205.8. For December, the index stood at 206, down from 207.1 in November.

Leading index copyright 1992 by Center for International Business Cycle Research

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
STEEL (1/4) thous. of net tons	1,776	1,639#	5.3
AUTOS (1/4) units	29,175	0#	-52.9
TRUCKS (1/4) units	17,009	0#	-49.9
ELECTRIC POWER (1/4) millions of kilowatt-hours	52,993	52,511#	-5.5
CRUDE-OIL REFINING (1/4) thous. of bbl./day	13,243	13,461#	7.8
COAL (12/28) thous. of net tons	13,093#	20,319	12.4
PAPERBOARD (12/28) thous. of tons	749.1#	795.9r	6.8
PAPER (12/28) thous. of tons	717.0#	783.0r	1.8
LUMBER (12/28) millions of ft.	216.3#	482.4	55.9
RAIL FREIGHT (12/28) billions of ton-miles	14.1#	21.0	15.6

Sources: American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Paper Institute, WWP, SFA, Association of American Railroads

FOREIGN EXCHANGE

	Latest week	Week ago	Year ago
JAPANESE YEN (1/8)	125	126	134
GERMAN MARK (1/8)	1.51	1.52	1.53
BRITISH POUND (1/8)	1.87	1.87	1.91
FRENCH FRANC (1/8)	5.17	5.19	5.18
CANADIAN DOLLAR (1/8)	1.14	1.16	1.15
SWISS FRANC (1/8)	1.35	1.35	1.29
MEXICAN PESO (1/8) ¹	3,051	3,049	2,949

Sources: Major New York banks. Currencies expressed in units per U. S. dollar, except for British pound expressed in dollars

PRICES

	Latest week	Week ago	% Change year ago
GOLD (1/8) \$/troy oz	350.600	353.150	-9.4
STEEL SCRAP (1/7) #1 heavy, \$/ton	94.00	94.00	-11.3
FOODSTUFFS (1/6) index, 1967=100	201.2	204.6	-2.7
COPPER (1/4) c/lb.	101.2	102.0	-16.6
ALUMINUM (1/4) c/lb.	51.5	51.3	-27.8
WHEAT (1/4) #2 hard, \$/bu.	4.20	4.16	53.8
COTTON (1/4) strict low middling 1-1/16 in., c/lb.	53.79	52.23	-23.2

Sources: London Wednesday final setting, Chicago market, Commodity Research Bureau, Metals Week, Kansas City market, Memphis market.

#Raw data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment.
1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

LEADING INDICATORS

	Latest week	Week ago	% Change year ago
STOCK PRICES (1/3) S&P 500	417.20	401.86	28.4
CORPORATE BOND YIELD, Aaa (1/3)	8.17%	8.22%	-9.1
INDUSTRIAL MATERIALS PRICES (1/3)	93.4	92.9	-6.1
BUSINESS FAILURES (12/27)	229	394	-42.0
REAL ESTATE LOANS (12/25) billions	NA	\$394.5	NA
MONEY SUPPLY, M2 (12/23) billions	\$3,398.8	\$3,406.7r	2.2
INITIAL CLAIMS, UNEMPLOYMENT (12/21) thous.	438	467	-15.0

Sources: Standard & Poor's, Moody's, Journal of Commerce (index: 1980=100), Dun & Bradstreet (failures of large companies), Federal Reserve Board, Labor Dept. CIBC seasonally adjusts data on business failures and real estate loans.

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Change year ago
BUSINESS WEEK PRODUCTION INDEX (Dec.)	174.3	177.6r	0.6
BUSINESS WEEK LEADING INDEX (Dec.)	206.0	207.1r	-2.1
CONSTR. SPENDING (Nov.) annual rate, billions	\$406.3	\$409.4r	-5.8
NEW HOME SALES (Nov.) annual rate, thous.	520	520r	8.1

Sources: BW, CIBC, Census Bureau, Commerce Dept.

MONETARY INDICATORS

	Latest week	Week ago	% Change year ago
MONEY SUPPLY, M1 (12/23)	\$898.5	\$898.4r	8.5
BANKS' BUSINESS LOANS (12/25)	289.9	291.9	-10.4
FREE RESERVES (12/25)	1,333r	486r	-8.1
NONFINANCIAL COMMERCIAL PAPER (12/25)	131.7	134.9	-8.4

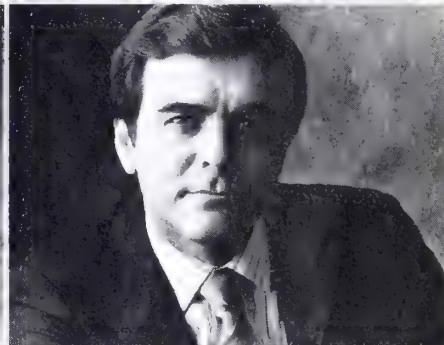
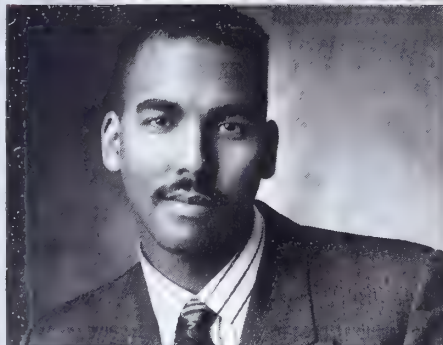
Sources: Federal Reserve Board (in billions, except for free reserves, which are expressed for a two-week period in millions).

MONEY MARKET RATES

	Latest week	Week ago	Year ago
FEDERAL FUNDS (1/7)	3.67%	4.19%	6.40%
PRIME (1/8)	6.50-7.00	6.50	9.50
COMMERCIAL PAPER 3-MONTH (1/7)	4.06	4.53	7.15
CERTIFICATES OF DEPOSIT 3-MONTH (1/8)	3.94	4.30	7.30
EURODOLLAR 3-MONTH (1/4)	4.16	4.31	7.41

Sources: Federal Reserve Board, First Boston

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DEREGULATE EUROPE'S SKIES, TOO? LEAVE BAD ENOUGH ALONE

Regarding "Free European carriers from U.S. barriers" (Editorials, Dec. 9): Even those airlines that have so far survived deregulation would be severely—if not mortally—hurt if foreign airlines, almost all of which are owned or subsidized by their governments, were to start going head-to-head with U.S. airlines on our domestic routes.

As we begin to address the issues of globalization, let's keep in mind the lessons we learned from past mistakes. The 1980s were extremely painful for U.S. airline employees. Almost all major-airline pilots working today have suffered through the disruptions caused by mergers, and a significant proportion of those pilots have had at least one of their carriers go bankrupt.

With the cessation of operations at Braniff, Eastern, Midway, and Pan Am, thousands of pilots and hundreds of thousands of other former airline employees are unemployed.

We can't help but believe that these mergers and bankruptcies were the consequences of a hasty and poorly implemented deregulation. Few if any of us have seen any improvements to our air transportation system that have been real and lasting.

So we are alarmed by those who call for rapid international deregulation. Let's not repeat on an international scale the mistakes we've made on a national scale!

J. Randolph Babbitt
 President
 Air Line Pilots Assn.
 Washington

VOTES OF NO CONFIDENCE FOR 'THE NEW IBM'

Your article "The new IBM" (Cover Story, Dec. 16) pointed out that, rather than attending a major computer industry meeting on Dec. 3, 1991, John Akers "stayed behind in Armonk, N. Y., to put the finishing touches on his reorganization plan."

If he were truly decentralizing the decision-making process, the executives in

charge of the new "freestanding, semi-dependent operations" would be determining staffing levels of their operations as they see fit. Why tie the hands of the new decision-makers? Profits will be less than maximized when decisions are made in a rigid fashion at the Armonk headquarters.

Thomas J. Keefe
 Assistant Professor of
 Business Administration
 Indiana University Southeast
 New Albany, Ind.

Invested in IBM primarily for my daughter's college education. My rationale was that I was doing the right thing by switching from a speculative stock to a safer, solid-growth company. I now regret my decision; my broker had recommended that I steer clear of IBM.

The clincher came when I read that Chairman Akers' proposed changes for IBM would be gradual. Here is a former Marine fighter pilot who I thought would take an ax to IBM's problems: Instead, he brought only a nail clipper. Here is a chief executive who goes to Europe and Japan to make upbeat pronouncements but who finally admits that all is not well with Big Blue.

It took a few minutes of soul-searching for me to finally decide to call my broker and instruct him to clear up my portfolio of any and all shares of IBM stock. The shares sold at the lowest price in 12 years, and I got about 60¢ on the dollar.

But I think that inaction on my part would have been the worst path. I wish I had never heard of the company.
 Humberto A. Calderon
 Tampa

SUBSIDIES FOR FOREIGN STUDENTS ARE THE PRICE OF EXCELLENCE

Regarding the letter to the editor "Why subsidize the foreign student?" (Readers Report, Dec. 9) by John A. Hennessy: His characterization of financial aid to foreign students as "subsidy" is completely inaccurate.

International students studying in the premier educational institutions in America are selected through an extremely competitive admission process, often

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Readers Report

characterized by implicit admissions quotas and the like.

Foreign students represent the cream of the academic systems of their respective countries, and on average surpass an American student in every measure of academic performance.

In addition, foreign students have much to contribute to the diversity at college, an aim that every American college professes to hold. A college should select the most qualified individuals from its application pool.

The financial aid that foreign students receive is not subsidy, it is the price that American colleges need to pay [for excellence].

Dipanjana Chatterjee
Amherst College
Amherst, Mass.

As a foreign student in an excellent high school here, I was both surprised and saddened to find out that I am not welcome by many of the Americans whom I love. Therefore, I would like to rebut [Hennessy's] argument.

I spent at least \$40,000 a year for two years in the U. S. Since foreign students are not allowed to work here or receive loans here, the amount we spend contributes positively to the U. S. balance of trade.

Many foreign students work for American companies after graduation and help expand their business in the world market. More important, foreign students contribute to U.S. graduate schools by offering a different perspective on business. I believe an open-door policy benefits the society.

Kenichi Okui
Evanston, Ill.

EDSEL FORD KIDDING?

Who does Edsel Ford think he is kidding ("Edsel Ford: I want to be judged on my ability," People, Dec. 1991)? Some people are born on third base and go through life thinking they hit a triple.

Mark D. Mishler
Morristown, N. J.

THE REAGAN YEARS: GROWTH WAS NOT SO GREAT

Regarding the article "Oh, for the Reagan years... when growth was growth" (Economic Viewpoint, Dec. 23): Of course, the consumer price index was double-digit in 1981! Has [Paul Craig] Roberts forgotten about the phony "oil crisis" of 1979 that nearly doubled oil prices?

And yes, there were millions of new

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(Can Sun do that? Nope.)

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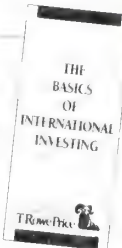
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Readers Report

Jobs created during the Reagan years—but most were low-paying service jobs. And certainly, the average family income increased—but much of that was due to the increase in the number of two-income families.

Roberts seems to think the "excesses" of the '80s were beneficial and are not to blame for our current economic mess. But those "good times" were built on a rotten foundation of debt, sleaze, and greed. The chickens have now come home to roost, and I fear we ain't seen nothin' yet!

Jerry J. Ritter
Springfield, Ore.

This is a fine example of "so far, so good" analysis, after the fellow who fell off the Empire State Building and, as he passed the 22nd floor, said: "So far, so good!"

John E. Ullmann
Hofstra University
Hempstead, N. Y.

There is an enormous flaw in Roberts' column on growth during the Reagan Administrations. The national debt nearly tripled, from about \$700 billion in 1980 to more than \$2 trillion at the end of 1988.

Interest on the debt is now almost four times what it was in 1980, and it wastes nearly a fifth of the federal budget. I, too, could live like a king for a few years if I could be allowed to spend other people's money and not pay it back.

Dennis Chamot
Executive Assistant to the President
Professional Employees Dept.
AFL-CIO
Washington

WE HAVEN'T COME SUCH A LONG WAY, GARY

Gary Becker's article on "Working women's staunchest allies: Supply and demand" (Economic Viewpoint, Dec. 2) overstates the number of women entering the engineering profession. Unfortunately, this share is not rapidly growing but has been relatively stagnant since the early 1980s, according to the May, 1991, *Engineering Manpower Bulletin*, "Women in Engineering."

The Society of Women Engineers is actively working to counter this stagnation through a wide variety of programs. Attracting more women to engineering makes sense for employees and employers. Women in the engineering field overwhelmingly report that their profession is respected, their jobs are interesting, and that they do important work.

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- Ensure that all employees fully complete Section 1 of the I-9 form at the time of hire — when the employee begins to work; and
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Other requirements include properly retaining Forms I-9, as well as making them available for inspection by officials of the Immigration and Naturalization Service, the Department of Labor, and the Office of Special Counsel for Immigration-Related Unfair Employment Practices.

In addition, the law prohibits discrimination with respect to the hiring, the recruitment or referral for a fee, or the discharging of a person from employment on the basis of national origin or, in some instances, citizenship. It is also an unfair immigration related employment practice for an employer to require more or different documents for purposes of completing the Form I-9, or to refuse to accept documents that reasonably appear on their face to be genuine and to relate to the individual presenting them.

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Readers Report

orthwhile contributions made by engineers to society will help to make this career choice more desirable for both men and women. In order to meet the technical challenges in the business world and ensure that a qualified and trained work force is available in the future, we must train more women and minorities as engineers.

Jill S. Baylor
President
Society Of Women Engineers
Denver

As a 25-year-old female seeking my MBA and studying compensation management, I was appalled at Gary Becker's claims.

To say that women have made "rapid progress in occupations and earnings compared with men since the late 1970s" is completely untrue. In fact, when such variables as experience and seniority are held constant, there has been no significant improvement whatsoever in 20-plus years.

To say that the "glass ceiling" refers to women not being able to get to "the very top" is also inaccurate. In fact, many women are finding it easy to get hired but difficult to move above entry level. This is also a "glass ceiling" effect.

To say that "women advanced most rapidly during the Reagan and Bush presidencies" and therefore civil rights legislation and the women's movement were not responsible for this progress is ridiculous. It shows no respect for women and leaves no doubt about Becker's political leanings.

To claim that unpaid parental leave discriminates against single or childless people and is inefficient is all wrong. It is actually much more efficient to allow a trained, competent employee to have a leave of absence than to force him/her to quit, resulting in hiring and training costs for a replacement. Also, single or childless people should hardly begrudge a new parent who takes this leave. I would hardly call it a benefit to go several weeks without pay while recovering from childbirth and taking care of a newborn. The real benefit comes at the end of the leave, when the parent gets his/her job back and the employer gets the valued employee back. So believe it or not, Becker, having a baby is not exactly a vacation.

Stephanie Kendall
Bloomington, Ind.

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Books

BANKS, BORROWERS, AND THE ESTABLISHMENT: A REVISIONIST ACCOUNT OF THE INTERNATIONAL DEBT CRISIS

By Karin Lissakers

Basic Books • 308pp • \$23

HOW BANKS GOT STUCK IN LATIN QUICKSAND

A sad truth about Third World debt came to me during a job hunt in 1985. Back in the U.S. after a year in Venezuela, I was armed with a sheath of clippings on the subject. But just before my first interview, a friend in journalism gave me valuable advice: "Don't talk to editors about debt. It bores them." She was right.

Much like the Salvadoran war, Latin America's debt crisis sank quickly into an apparent deadlock. Once it was clear that it wouldn't provoke massive bank failures in the North or communist uprisings in the South, editors turned off.

That said, is anyone up for reading Karin Lissakers' *Banks, Borrowers, and the Establishment: A Revisionist Account of the International Debt Crisis*? To be sure, Lissakers' dry account won't make debt a sexy topic. Still, it's an eye-opening look at the world's leading bankers hurtling toward disaster.

Lissakers, a Columbia University professor, fails to address the gigantic changes wrought in Latin America. But she does well with the bankers, following them from the mad recycling of petrodollars in the '70s to the grim re-scheduling marathons of the '80s. Presiding over a broad cast is former Citicorp Chairman Walter Wriston, who told fellow bankers there was little risk in sovereign debt, as nations "don't go out of business." Lesser players include globe-trotting greenhorns—in one banker's words, "those MBAs, with their Guccis and their \$30 million lending limits."

Despite her claim of revisionism, Lissakers hews closely to the standard line. In the '70s, U.S. and European bankers sat on billions in OPEC deposits. Recession limited domestic demand for loans. But Third World governments took every loan they could get. The bankers could see that much of the money wasn't going into promised dams, highways, or petrochemical plants. In fact, billions were coming back to the lenders as flight capital. So much the better.

Hunger for profits, Lissakers says, probably blinded bankers to the possibility of default, despite a history of repudiated debt in the region. But a tax loophole also encouraged them to push loans south. In her one ground-breaking chapter, the author describes how it worked. Borrower countries declared a high withholding tax on interest revenue and provided banks with a receipt for it. But instead of collecting the tax, the borrowers simply negotiated cheaper loans. Armed with their tax receipts, banks claimed exemptions at home. Profits

Plan, forcing banks to forgive debt, reduce interest rates, or commit new money to debtors. When the plan was introduced in Mexico, most banks swallowed their losses and retreated. Although such important debtors as Brazil and Argentina have yet to Brady their way out of the mess, most smaller banks have unloaded their Latin debt at a discount. And except for such giants as J. P. Morgan & Co. and Citicorp, the banks have quit the region.

What does Lissakers draw from all this? In short: Bankers are quick to forget. They got burned in Latin America in the '30s and the '80s, but if they see a chance to make money, they'll be back. Such amnesia, in which the promise of profits erases the memory of losses, seems to me a vital component of capitalism. It returns losers from limbo. With time, any big borrower willing to pay an extra point or two, be it Donald Trump or Bolivia, can find a loan and start back up.

What Lissakers fails to convey is how the debt crisis sank Latin America's ancient regime of state-run economies. Starved for credit in the '80s, Latin American leaders opened markets, tore down barriers to foreign investment, and sold off state-owned companies. The revolution in Latin America was quieter than the fall of the Berlin Wall, but while Eastern Europeans are still mapping the route to the marketplace, Latins are living there. Half a hemisphere has changed course, but

Lissakers skims over the changes in a couple of pages.

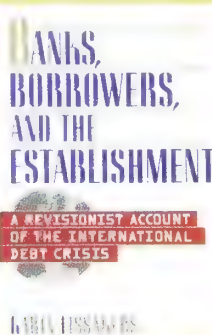
Already, there's a new rush to the region. Mexico City's stock market, fueled by foreign investment and returning flight capital, doubled in 1991. The Buenos Aires market tripled in dollar value. U.S. investment bankers are underwriting billions in Latin bonds, and U.S. portfolio managers are gobbling them up.

This time, more of the money is going to private business, less to the state. And there's more equity, less debt. But this time, like last time, there's money to be made. As Lissakers predicts, those bankers who got burned will be coming back—some to get burned again, and if history's debt dramas tell us anything, others to make a bundle.

BY STEPHEN BAKER

Steve Baker is manager of BUSINESS WEEK's Mexico City bureau.

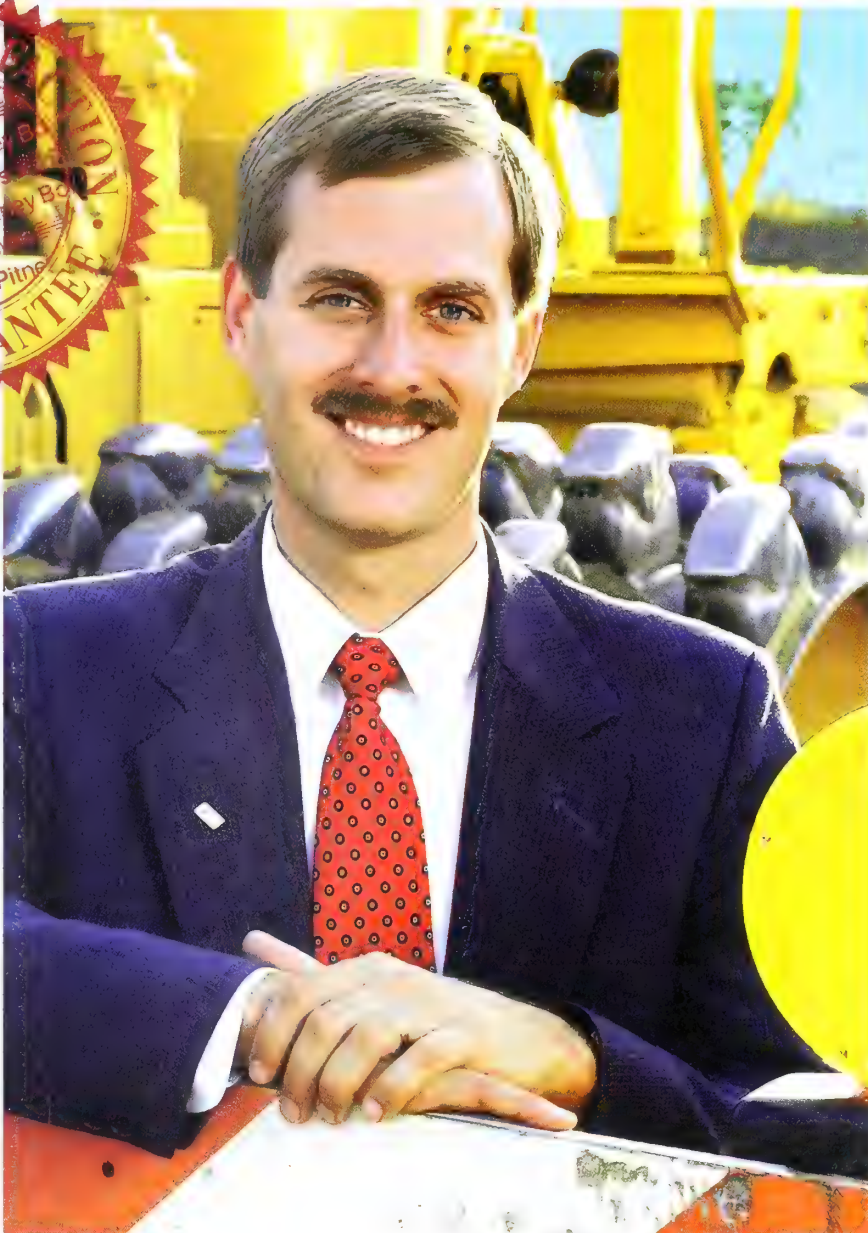
Though burned repeatedly in Latin America, banks keep coming back for more



came in the form of reduced tax payments, until the mid-80s, when the U.S. and Britain clamped down.

Until 1986, when U.S. law changed, major banks paid laughably low taxes. In 1985, for example, Citicorp paid federal income tax of only \$30 million on pre-tax income of \$1.76 billion, a rate of 1.8%. Attributing much of the banks' tax savings to the deduction of foreign taxes, Lissakers concludes that taxpayers subsidized the Latin lending spree. And even after the law changed, she notes, banks' taxes didn't rise much. By then, banks had plenty of losses to declare, at home and abroad.

As the impasse dragged on through the '80s, commercial banks cut Latin American loans to a trickle, leaving northern governments and their development banks to keep the debtors solvent. When this became evident, the Bush Administration pushed through the Brady



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At Pitney Bowes, customer satisfaction is a commitment that's at the very fiber of our business. It shapes the attitudes and actions of our people. And it's reflected in the quality and reliability of our products. What's more, we back it up with our Customer Satisfaction GuaranteeSM. For more information, call 1-800-MR BOWES ext. 2010.

"When we went looking for copiers, service was our number one concern...and Pitney Bowes was our number one choice."

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Alabama is inside the continental United States. In fact, it is located in the center of the most desirable relocation region in the country.



While you might think of overalls as the clothing of choice, most of us prefer blue or white shirts. Alabama's traditional labor force has shifted from farming to more service and high-tech industries.



All work and no play wouldn't make sense in Alabama. Enjoying an old rocker, a wide porch, and some good conversation is still a favorite pastime here.

Alabama Isn't Where You Think It Is.



You will still see a lot of Alabamians going without shoes—mostly on the sandy white beaches of Gulf Shores.



Football rivalries here are strong as ever. But today colleges and universities helping Alabama business maintain a competitive edge as well, offering research capabilities in areas from automotive manufacturing to magnetic information systems to food products.



If you think we take too much moonshine, you're only partly right. But it isn't the kind of moonshine you think. Our state has played a leading role in developing the space program. In fact, Alabama has produced seven astronauts—more than any other state.



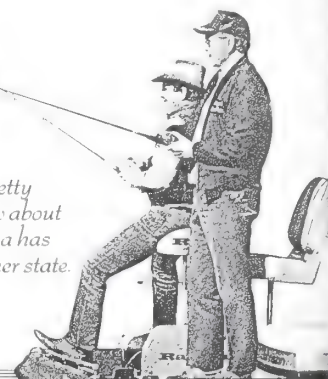
Some say you're moving to the edge of the world when you move to Alabama. In some parts of the state, you could say that's true; the southern ridge of the Appalachians offers some spectacular views.

The fiddle may be the first musical instrument you would connect with Alabama. And you'll still see a lot of them in the state's many symphony orchestras. (Although they refer to them as violins.)



Practicing our aim is still a favorite pastime for many Alabamians. In fact, our prowess as sharpshooters was proven in the Gulf War by the Patriot Missile, which originated in Alabama.

Yes, we do a lot of fishing here. And some pretty important people, including the President, know about our beautiful lakes and rivers. In fact, Alabama has more miles of navigable waterways than any other state. We use them for shipping, too.





Some are convinced the bouffant is still alive and well in Alabama. But, like the rest of the country, we opted for more up-to-date styles years ago.



Sorry, that's a different state entirely.



A revered folk craft from our past, the attention to detail and intricate handwork used in our quilts has been passed down to newer generations and applied in fields like electronics for assembling circuit boards.



So you think our workers come out of trailers. Some of our best actually do. Alabama Industrial Development Training, a free service to industry, has the nation's largest fleet of mobile training units. Some businesses have traveled from as far away as Singapore and Japan to employ AIDT-trained workers.



Yes, you'll probably see a few cows. But we don't just settle for raising cattle. Researchers at Auburn University have developed a whole line of leaner foods like the McLean burger, a product McDonald's is slipping over.

s, we're still early risers. In fact, mians are known for our strong ethic. But these days, most of us depend on electric alarms.

Once known for its smokestacks, Birmingham has diversified in recent years to a service-oriented economy, with health care our main industry. Steel remains important to our economy, but the state-of-the-art mills contrast sharply with the old. In fact, one old furnace is now a museum.



If Alabama is nowhere near what you thought, maybe there's more you should know about our state. For instance, what makes it a great place to live and a great place to work. What makes companies like JVC America decide to make their headquarters here. Why GE has made its largest single capital investment, close to \$1 billion, in Alabama. And why people like one Connecticut family, who thought they were being "sent to hell" when transferred here, now like it so much, they wouldn't think of leaving. If your company is considering expansion or relocation, consider Alabama. You just might find it's pretty close to ideal.

ALABAMA

'CROWDING-OUT' HAS BUSINESS UP AGAINST A WALL

BY ROBERT KUTTNER



Corporate America is still denied access to the cheap capital it needs. Why? Because government borrowing to fund the deficit is hogging it all. Sound familiar? It should

The prime rate today is a nice low 6.5%. That should mean credit is cheap and plentiful. But ordinary businesses are still facing a severe credit squeeze, while bankers say they face a scarcity of attractive, high-quality borrowers. What gives?

What gives is a new wrinkle on an old concern: "crowding-out." For decades, businesses and conservative economists have warned that government debt would crowd out business borrowing. In a closed economy, there is only so much savings. If government eats up most of it, business goes without or faces high capital costs. Either way, growth suffers.

Liberals responded that as long as government deficits were relatively moderate and their proceeds invested usefully, crowding-out was a myth. In the Keynesian view, when there is idle capacity in the economy, potential crowding-out is a lesser evil than stagnation. In the 1940s and '50s, when real interest rates were very low, government debt was a big slice of gross national product—more than 100% in the late '40s—but much of that debt was invested in public construction and war production, so deficits stimulated real growth. From 1946 to 1980, debt declined relative to GNP. The original conservative worry—let's call it Crowding-Out I—never materialized.

In the 1980s, however, government deficits soared, under conservative supply-side auspices. By then, capital markets were global. Although government borrowing consumed roughly two-thirds of domestic savings, private investment held up, because the U.S. could attract capital from overseas—but at a price. U.S. interest rates had to be kept high enough to coax in capital that the American economy was not generating domestically. This was a different sort of crowding-out. With U.S. business facing high real interest rates (and hence high capital costs), speculative investments that promised quick, lucrative returns tended to crowd out investments with slower payouts. Foreign companies with lower capital costs tended to crowd out American ones. Call it Crowding-Out II.

TRICKLING IN. In the 1990s, crowding-out is taking yet another form. The federal deficit is bigger than ever—an estimated \$350 billion in fiscal 1992, but the Federal Reserve Board is suddenly pursuing an easy money policy. This is occurring just as Germany, the central banker of the European Community, is running its tightest money policy in several decades. With the dollar weak and U.S. interest rates lower than rates abroad, the huge foreign purchases of Treasury securities have slowed to a trickle.

Who, then, is buying all that Treasury debt?

American commercial banks, of course. According to Federal Reserve data, commercial-bank holdings of Treasury paper increased by over \$100 billion in the first 18 months of the 1990s, while commercial loans actually fell. This is Crowding-Out III.

This flight to Treasury debt has been intensified by the regulators' crusade to compel banks to build capital and by the 1988 Basel Accords, which require a common floor on bank capital-to-asset ratios—a laudable goal. The Basel Accords require a minimum ratio of 8% by yearend 1992. Under the accords, however, assets held in government securities are considered as good as equity capital, and banks need not hold any capital reserves against them. At a time when banks are nervous about all but the safest investments, this creates a powerful incentive to hold Treasury paper.

OUT OF SYNC. Hence there is tacit collusion between an Administration unwilling to get serious about deficit reduction and a newly chastened and risk-averse banking community. The victim, of course, is the real economy.

Over the long term, this heavy dependence on investment in government debt can't be good for the banks either, as Treasury securities pay only slightly more than the banks' own cost of funds. If a bank wants to earn profits and attract new equity, it has to go out in the market and make loans.

One senior Fed official, speaking off the record, worries that regulators' current policy of forcing banks to build capital is badly out of sync with the needs of the real economy. The time to build bank capital, he says, is during the boom phase, not in a recession. The purpose of bank capital is to cushion risks of bad loans and to allow the banking system to serve the real economy. But regulators are currently pursuing higher capital-to-asset ratios mainly to avoid drains on the Federal Deposit Insurance Corp. In a recession, most banks are unable to build capital by selling stock or by drawing on profits. So the only way to improve bank capital-asset ratios is to shrink assets—i.e. loans. In effect, the Fed is haplessly combining a counter-cyclical loose monetary policy with a procyclical policy on bank capital that only deepens the recession.

So conservative economists can take some perverse satisfaction that they were right about crowding-out after all. If the government runs up a big enough debt and uses it for nonproductive purposes, federal borrowing will eventually crowd out private borrowing. We have come full circle, back to Crowding-Out I. And oddly enough, it all happened under two conservative Administrations.

MAXIMA. BEST IMPORT SEDAN UNDER \$25,000.



In *Car and Driver's* recent clash of the import sports sedans, Nissan Maxima SE routinely stomped its toughest challengers, some costing thousands of dollars more.

This is a wildly competitive and popular niche, populated by a collection of big shooters boasting all the latest technological hits their manufacturers have to offer.

The field included: the Acura Integra LS, the Audi 80, the

Galant VR4, the Nissan Maxima SE, the Subaru Legacy Sport Sedan.

And the winner was: The Maxima. Hands down. With strong power delivery, great steering, and room for five adults, the SE displayed a degree of sophistication and refinement far beyond its price.

Of the cars tested, the Maxima was the only one possessing a V-6, which is evident in its remarkable

Maxima among tops in resale.

Vehicle	MSRP New	Current Resale	% of Orig. Value
1989 NISSAN MAXIMA SE	\$19,159	\$13,600	70.98%
1989 Mercedes-Benz 190D	\$31,230	\$21,700	69.48%
1989 BMW 525i 4D	\$37,325	\$25,900	69.39%
1989 Toyota Cressida	\$21,753	\$14,450	66.43%
1989 Ford Taurus V6 L	\$13,688	\$ 8,900	65.02%
1989 Saab 900S	\$21,129	\$13,250	62.71%

Source: Maxima '91 Kelley Blue Book Used Car Guide.

According to the *Kelley Blue Book, Western Edition*, Nissan Maxima SE retains more of its value than other similar cars.

As the chart above attests, a 1989 Maxima retains 70.98% of its value. Which is more than BMW 525i, Mercedes-Benz 190D 1.9 Taurus V6 L, Saab 900S, and Toyota Cressida.

The *Kelley Blue Book Official Used Car Guide* is widely recognized as the most reliable source of used car values. The book has been published for 65 years. The May-June, 1991 edition shows the current value.

Resale is an increasingly important factor in the purchase of a new car.

BUY LOW. SELL HIGH.

If it's smart to invest in a sports sedan, buying or leasing a Nissan® Maxima® can be a stroke of genius. The September issue of *Car and Driver* says the '91 Maxima SE is the best import sports sedan under \$25,000 money can buy. Better than Acura. Better than Audi. Better than Legacy. In fact at \$20,815 it may be the best buy at any price.*

The May-June edition of the *Kelley Blue Book* says the '89 Maxima SE is one of the best sports sedans money can rebuy. Beating perennial stalwarts like Mercedes and BMW.

So if you're contemplating a sports sedan, consider test-driving a Maxima. It outdistances every opponent in what may be this year's most hotly contested automotive category.

And it performs just as well down the road as it does on it.



BUILT FOR THE
HUMAN RACE.®

*MSRP excluding taxes, title, license, destination charges and options.

Call 1-800-NISSAN-6 for more information. Smart people always read the fine print. And they always wear their seat belts.

THE MOST POWER



TOSHIBA T4400SX. GOING.

Behold the remarkable new Toshiba T4400SX notebook—the first 486SX computer to offer all the power and performance of a desktop computer while freeing you from the tyranny of the nearest electrical outlet.

For starters, it offers a brisk 25 MHz clock speed plus the computing power of a 486SX micro-processor with 8K internal cache, upgradable to 486DX.



You can use our credit card-sized memory modules to expand standard 2MB RAM to 10MB for added speed and multi-tasking capabilities.

Add to that an 80 MB hard drive and standard 2 MB RAM

expandable to 10 MB, and you have the capacity to run everything from the most complex spreadsheets to the most intricate graphics applications.

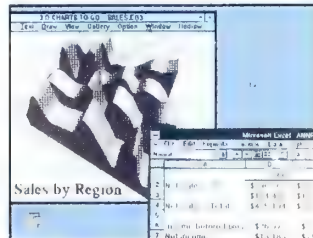
And what you get is what you see. Because the T4400SX is the only notebook computer that offers a Gas Plasma screen, with a 100:1 contrast ratio—seven times the contrast of a typical LCD display. It also offers 10 times the refresh rate, for clearer animation as well as no mouse blur.

Or you can choose our 9.5" state-of-the-art diagonal LCD display, with uncompromising graphic clarity from the black & white ultra thin screen.

Each of the screens offers a 640x480 VGA high-resolution display as well as the graphic versatility of 16 gray scales for the Gas Plasma screen and 64 gray scales for the LCD.

To make matters even better, the full-function keyboard

has standard size keys and key spacing. And the Nickel Cadmium battery provides more than three hours of continuous computing power.



If you choose the 9.5" diagonal LCD display, you get the versatility of 64 gray scales as well as high-resolution 640x480 VGA on the black and white ultra thin screen.

When you stop to think that all of this can be yours in an ultra-strong 11.7" W x 8.3" D x 2.2" H carbon fiber-reinforced case weighing only 7.25 lbs., it's easy to understand Toshiba's conviction that portables are the future of personal computing.

So if you'd like to know more about the T4400SX notebook, or other

On those occasions when you're actually at your desk, you can plug your T4400SX into our optional Desk-Station IV with all standard desktop hardware connections and expandability.



Toshiba products, call us at 1-800-457-7777. We'll send you information that will not only answer your questions about our portables, but give you a new way to think about desktop computers.

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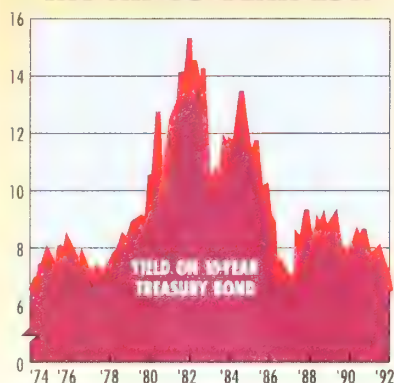
BY GENE KORETZ

HOUSING MAY NEED MORE THAN FALLING RATES...

For months, the Federal Reserve's efforts to revive the moribund economy have been stymied by one obvious hurdle: the recalcitrant behavior of long-term interest rates, which influence such critical sectors as housing and capital spending and have remained relatively high even as rates on the short end of the spectrum plummeted.

Now, however, "the dam has finally broken on long rates," declares

SOME LONG-TERM RATES HIT AN 18-YEAR LOW



DATA: FEDERAL RESERVE, MERRILL LYNCH & CO.

economist Bruce Steinberg of Merrill Lynch & Co. As investors' inflationary fears have waned, the yield on 30-year Treasuries has fallen below 7.5%, to its lowest level in five years, and yields on 10-year Treasuries have actually touched an 18-year low. Although more declines probably lie ahead, rates have already "dropped to levels that should spark economic recovery," Steinberg believes.

For corporations, some tonic effects are apparent even now. With \$900 billion in short-term debt, for example, corporations have found their annual interest-payment burden slashed by some \$20 billion in the past year, estimates Steinberg. Lower long rates promise to provide more savings via the refinancing of long-term debt and to foster new investment projects.

Many consumers are benefiting, too. Holders of adjustable-rate mortgages, for example, already have seen their monthly payments decline significantly. And applications to refinance fixed-rate mortgages have soared over the past year. Total interest savings on adjustable- and fixed-rate mortgages, says

Bear Stearns & Co. economist Lawrence Kudlow, "could amount to a \$40 billion tax cut for households in 1992."

It's the housing market, however, especially new-home construction, that can really galvanize the economy. Economic consultant Robert Chandross notes that falling mortgage rates initially tend to quicken sales of existing homes and then stimulate housing starts as rising home values boost the confidence of families and builders.

While some of that has clearly begun to happen, there is concern about how far it can go. Such experts as housing analyst Barbara Allen of Kidder, Peabody & Co. warn that the process will likely be short-circuited, with new-home construction actually weakening as the existing-home market takes off.

"The problem is not on the demand side, but on the supply side," explains Allen, who points out that banks are being pressured by regulators to reduce their real estate loan portfolios by a third, or a whopping \$200 billion. Except for a relatively small number of large builders with credit lines, that means most small builders—who normally account for more than 90% of housing starts—will have little access to capital.

Chandross believes the situation will resolve itself as rising demand and home values reduce the number of problem loans and return a healthy glow to the housing market. But Allen sees no sign that regulators are relenting. Unless they wake up, she says, "we're likely to see declining single-family starts this year, in the face of strong demand and sharply rising prices." And the traditional stimulative effect of a housing recovery on the overall economy "will be conspicuous by its absence."

...BUT OUTLAYS FOR HOME IMPROVEMENT COULD JUMP

One area that may do well this year, even if housing starts falter, is home-improvement spending, which accounts for about 25% of total residential investment. Indeed, such outlays could rise even more if regulatory problems constrain construction lending.

Here's why: Home-improvement spending has fallen by some 10% in real terms since 1988. The weakness apparently stems from the softness in home prices, which tends to dissuade homeowners from investing in an asset whose value they perceive to be declining. Thus, if existing-home prices strengthen sharply this year, such investments are

likely to look more attractive—particularly since home-equity lending and mortgage refinancing are not on banking regulators' hit lists.

CANADA'S ECONOMY IS FROZEN—BUT SO IS ITS INFLATION

Canada's economy, reacting to weakness in the U.S., may be slipping back into recession. After hitting a 5% clip in the second quarter, growth fell below 1% in the third and appears to have declined in the fourth.

The silver lining in this cloud of economic gloom is a remarkable inflation performance. Consumer prices rose at a minuscule 1.6% annual pace over the past six months, while industrial product prices in November were actually 3.1% below their year-earlier level. While falling oil prices have helped, they're far from the whole story. Excluding food and energy prices, the pace of consumer inflation over the past six months has still been below 3%.

THE GRAYING OF JOE AND JANE COLLEGE

Here's a pattern that seems to defy the laws of economics: The 18- to 24-year-old population, the traditional source of demand for a college education, shrank by 2.7 million between 1979 and 1989, yet the cost of higher education continues to soar.

One reason, of course, is that demand for college education is still rising. In particular, more and more older people are going to college these days than in the past, accounting for three-fifths of a 16% rise in college enrollments in the 1979-89 decade. Indeed, the Census Bureau reports that 30% of all undergraduates in the fall of 1989 were over 24 years old, and 12% were over 34.

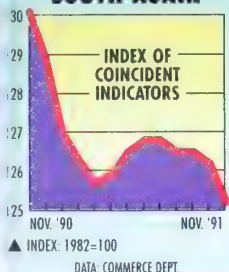
Paradoxically, the aging of the undergrad population doesn't seem to reflect a trend toward increased college attendance later in life. While the proportion of younger people aged 18 to 19 attending college climbed by over 10 percentage points between 1979 and 1989 even as their numbers dwindled, *The Numbers News* newsletter notes that college participation by people over 24 did not rise appreciably. Rather than increased college attendance, the big jump in the ranks of older students simply reflects the fact that this group represents the tail end of the baby-boom generation.

BABY, IT'S COLD OUTSIDE —BUT HANG ON FOR SPRING

If you feel a strong sense of déjà vu, there's a good reason. This time last year, consumer confidence had collapsed, the economy was slumping, the Federal Reserve had eased policy aggressively, the stock market was surging, and economists were predicting a modest recovery beginning in the spring.

All that is true today, but there are two important differences: The gulf crisis took the blame for most of the economy's problems last year, but this year, it is clear that those troubles run much deeper. Second, the Federal Reserve now seems to recognize that fact, and its recent sharp cuts in interest rates make the prospects for a spring recovery a lot brighter this time around.

THE ECONOMY HEADS SOUTH AGAIN



of weakness is unlikely to match that of last winter.

The government's index of coincident indicators tells the story. This composite of industrial production, employment, incomes, and business sales fell 0.8% in November, to the lowest level in four years. The drop was the largest since last winter during the worst months of the recession. The index has now lost all of the gains it made after hitting a low point last March (chart). This pattern is strong evidence that the recession, which began in July, 1990, is not over.

Through November, the index of leading indicators offers no encouragement. This gauge of the economy's future path fell 0.3% that month and has been slipping since last summer. The recent surge in stock prices—one of the index' 11 indicators—will be a plus for the index in coming months, but other forward-looking gauges may take a while to get turned around.

FACTORY ORDER BOOKS ARE THIN

As was true last winter, consumers are turning a cold shoulder to retailers, and that is once again sending a chill across the nation's factory sector. Poor holiday buying left retail inventories high, which slowed manufacturers' orders to a trickle. Factory output, which dipped in November, is headed for further declines.

Getting there will be the hard part. After slim gains in the second and third quarters of 1991, the economy appears to be in a second leg of recession brought on by a retrenchment in consumer spending. The monthly data suggest that fourth-quarter gross domestic product fell, and the slump will probably extend into this quarter. However, the severity of this new round

Unfilled factory orders are a key leading indicator that continues to head down. The backlog fell 0.5% in November, to the lowest level in two years. Excluding aircraft, unfilled orders have fallen to a 4½-year low. The shrinking backlog signals that production momentum is fading.

Indeed, the worst of the factory weakness has yet to show up in the government data. The National Association of Purchasing Management's index of industrial activity fell for the third consecutive month in December, to 46.5% (chart). A reading below 50% says that manufacturing is in recession.

According to the NAPM, orders weakened in December, both at home and abroad. The NAPM's index of export orders fell to one of the two lowest levels in four years, reflecting slower growth in foreign economies.

Domestically, one of the biggest problems for manufacturing is weak car demand. Sales of U.S.-made autos picked up in the final 10 days of December, but car buying for the entire month fell to an annual rate of 5.9 million—the lowest pace since April (chart, page 24).

Weak sales are swelling dealers' inventories and forcing cutbacks in Detroit's production schedules this quarter. Lower car output will ripple through Detroit's supplier industries, creating additional weakness in manufacturing output and employment.

Once lower interest rates begin to stir demand back to life, however, the factory sector—and the economy—should respond very quickly. A key reason is manufacturers' tenacious efforts to keep their inventories low.

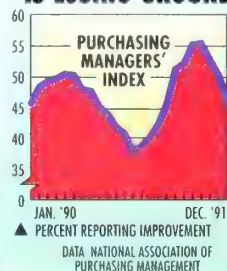
Despite weak demand, factory stockpiles were unchanged in November, and they have not grown since September. Also, the ratio of factory inventories to shipments fell in November to the lowest level in more than two decades. So despite generally excessive retail inventories, stockpiles in manufacturing are under control.

HAMMERS AND SAWS COME OUT OF STORAGE

One sector that isn't repeating the pattern of early 1991 is construction. The building industry continues to climb slowly out of recession. But because the recovery is so uneven, this sector will offer little support for the rest of the economy.

Spending on building projects fell 0.8% in November, but that was the first drop in five months, and outlays were held back, in part, because of bad weather. The

THE FACTORY SECTOR IS LOSING GROUND



Business Outlook

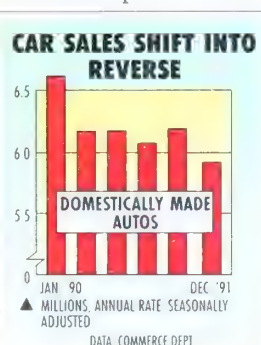
construction industry hit bottom in the middle of 1991, but most of the second-half strength has been in government projects and homebuilding.

Construction outlays by the government were flat in November, but that followed a large 2.1% gain in October. Public-works spending suffered little during 1991, and the \$151 billion authorized by Washington for transit projects over the next six years ensures that government construction spending will continue to grow.

LOW RATES WILL LIFT HOME SALES

Housing is also on the rise. In November, snowstorms in the Midwest caused a small 0.1% decline in residential construction. But housing activity is almost back to its pace of a year ago. Six months ago, homebuilding was a steep 18.1% below its year-earlier level.

Housing's upturn will be mild, though. Demand for new homes remains tepid. In November, new single-family homes sold at an annual rate of 520,000, the same as in October. Impressive gains in the South and West offset drops in the Northeast and Midwest in November.



The continued drop in mortgage rates certainly helps the outlook. HSH Associates reports that for the week ended Jan. 3, the average rate on a 30-year fixed mortgage stood at 8.36%—the lowest in 18 years. Many lenders are offering fixed mortgage rates below 8% and adjustable mortgages below 5%.

In addition, the inventory of unsold homes has been shrinking. Builders hold just 6.8 months' supply of unsold homes, the lowest since late 1989. In early 1991, the supply was more than 9 months.

A pickup in homebuying, however, will depend on a better employment picture—which isn't likely to happen

until spring. But the leaner supply of available homes means that housing starts should rise rather quickly when demand increases.

For nonresidential construction, which accounts for about one-third of private building, the news is less cheery. Spending on nonresidential construction has been in a free-fall since April, 1991 (chart).

In November, outlays for nonresidential buildings fell 3.6%, to stand 21.2% below its pace of a year earlier. Office and other commercial projects, including retail outlets, are in extremely dire straits. Spending there has fallen sharply for seven consecutive months.

This year won't be much better. Vacancy rates for commercial real estate remain high in many regions. And financing difficulties still hamper some developers.

Contracts for nonresidential construction also show no sign of a rebound. According to the F.W. Dodge Div. of McGraw-Hill Inc., contracts for all new construction dropped by 4% in November. Nonresidential-building contracts fell a steep 8.3%. For the first 11 months of 1991, industrial and commercial contracts are down some 12% from the same period of 1990. For the rest of the construction industry, contracts are off 7.5%.



A year ago, it was thought that winning the gulf war would end the recession. That didn't happen because the problems of too many buildings, too much debt, and too little demand were dragging down the economy well before the Iraqi invasion of Kuwait.

Now that the postwar euphoria has come and gone, the Federal Reserve seems to have redoubled its efforts to get a lasting recovery on track. Those efforts should finally begin to bear fruit, but only after one more hard winter for the economy.

THE WEEK AHEAD

RETAIL SALES

Tuesday, Jan. 14, 8:30 a.m.

Retail sales in December are expected to have fallen by 0.1% after rising 0.3% in November, according to a survey done by MMS International, a unit of McGraw-Hill Inc. Weak car buying hurt sales last month. However, nonauto sales probably only increased by 0.2% in December, the same pallid gain as in November.

BUSINESS INVENTORIES

Wednesday, Jan. 15, 10 a.m.

Inventories at manufacturers, retailers, and wholesalers probably edged up by 0.1% in November, after growing by 0.4% in October. Factories have already reported no change in their November

stock levels. Business sales likely rose about 0.4% in November, after advancing by 0.3% in October.

CONSUMER PRICE INDEX

Thursday, Jan. 16, 8:30 a.m.

Consumer prices likely finished the year with a 0.2% gain in December, say the MMS economists. If so, prices would have risen by a little less than 3% in 1991—the lowest inflation rate in five years. In November, the CPI increased 0.4%, led by higher clothing costs.

MERCHANDISE TRADE DEFICIT

Friday, Jan. 17, 8:30 a.m.

The MMS consensus expects that the foreign-trade deficit narrowed slightly in November, to \$6.3 billion, from Octo-

ber's \$6.7 billion. Exports, which rose 3.9% in October to a record high, were likely unchanged in the following month. And imports, which rose 2.8% in October, probably fell slightly in November.

INDUSTRIAL PRODUCTION

Friday, Jan. 17, 9:15 a.m.

Industrial output probably sagged by 0.2% in December, after dropping 0.4% in November. That's indicated by the poor performance in the National Association of Purchasing Management's index of industrial activity. The drop suggests a small decline in capacity utilization, which is now released in the same Federal Reserve report. Operating rates likely slipped to 78.7% last month, from 79.1% in November.

Windows opens up a new universe for McDonnell Douglas.



"Windows allows that ease of learning, that graphic function, that engineers appreciate."



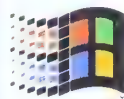
"I'd have to add 20% to the head count to go back to character-based functions."



"Windows removed the drudgery and added fun to it. And why shouldn't you have fun?"



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A STAMPEDE FOR CHEAPER MONEY

COMPANIES CASH IN ON BARGAIN-BASEMENT RATES AND A BULL MARKET

TriMas Corp. is starting 1992 off with a new, slimmer balance sheet. With interest rates at a 28-year low, the Ann Arbor (Mich.) maker of such gritty gear as trailer hitches got its bankers on the phone. And just like that, the deep-in-debt company refinanced \$88 million of \$128 million in debt from a 1988 spin-off. By cutting the rate it pays by two whole percentage points, and by retiring the remaining \$40 million debt balance, TriMas eased its yearly interest payments by a welcome \$5.4 million. Now, the company is set up nicely for an expansion spree in a market chockablock with recession-style bargains.

Like the millions of homeowners across the U.S. who are putting cash in their pockets by refinancing mortgages

at lower rates, Corporate America is enjoying a refreshing change in the capital markets. From AT&T to Du Pont to HCA, companies big and not-so-big are rushing to cut new deals with lenders or raise fresh dough in a surging stock market. In 1990, corporate debt peaked at 46.8% of total capital, saddling U.S. businesses with a superhigh interest tab that cut into their ability to spend on new products, new markets, and other operating initiatives. But this year, the debt-to-capital figure should inch down to 46% and keep easing from there (chart).

These days, cheap capital doesn't end with corporate IOUs. Raising money in the stock market is a sweet deal, too. After a four-year drought, Wall Street underwriters are flush with equity deals.

Issuers have been lured to market by a surprising new appetite for equities among investors, who are fleeing the rock-bottom rates paid on bank certificates and money funds. The torrid 1991 pace for initial offerings—triple 1990's—should continue this year, analysts say.

NO DICE. So does Dec. 20, the day the Federal Reserve slashed the discount rate by a full point to 3.5%, mark the end of the recession? Unfortunately not. This downturn is a stubborn beast: Witness the continuing layoffs, sour consumer confidence, and enduring, albeit lighter, debt burdens. And lower rates haven't yet changed life much for small companies. "They could be charging zero percent interest," says Jim Weidman, a National Federation of Indepen-

THE JOYS OF CHEAP CAPITAL



POLAROID'S O'NEILL IS USING CHEAPER DEBT TO SAVE THE COMPANY \$2 MILLION ANNUALLY

Across America, big companies are exploiting low rates and a surging stock market to repair balance sheets that suffered such damage in the 1980s. Cheap debt is replacing high-cost borrowings, and investors are snapping up new equity issues. The upshot: a warmer climate for business



HOSPITAL OWNER HCA IS READY TO GO PUBLIC

ent Businesses spokesman, "and banks till wouldn't lend to small businesses."

But for many companies, lower rates and the parallel bull market in stocks are making business a lot easier. Even those that normally sit out credit market allies can't resist jumping in now: American Telephone & Telegraph Co. and Du Pont both offered debentures on Jan. 7. For smaller companies, the markets are making expansion possible gain. Medical Care International Inc., the nation's largest operator of outpatient surgical centers, is using \$115 million in debentures it issued to add as many as 10 centers this year to its current 80. Dallas-based Medical Care, which must pay up to 9.9% on other bonds, is shelling out just 6.75% for these. Says CEO Donald E. Steen: "I can't imagine a better market."

Then there's Fleet Call Inc. of Rutherford, N. J. The radio dispatch operator is eyeing a \$200 million stock sale to fuel its move into mobile phones, where it will take on the likes of McCaw Broadcasting Co. and Lin Broadcasting Inc.

For large, well-established companies, the new environment offers wonderful flexibility. A month ago, Walt Disney Co. was thinking about raising \$220 million for its TV production unit via a new-angled investment vehicle dubbed ZEBRA, for zero-based rate adjustment security. This paid a modest 4% but

allowed investors to share Disney's profits, once hoped-for hits like its new *Dinosaurs* move into syndication. Suddenly, two days before Christmas, Disney canceled the ZEBRA. Why? When it needs to, it can borrow from banks for less.

And big savings can be just a little legerdemain away for companies with high-interest debt to trade in. Polaroid Corp. wants to swap \$150 million in notes paying 8.9% with ones at a maximum of 7.5%. Savings: between \$1.5 million and \$2 million annually.

STOCK OPTION. Polaroid's experience is a prime example of how debt-heavy companies got there—and of how they plan to dig out. In 1989, after borrowing big bucks to fend off a raider, the photo filmmaker was left with a debt load of 88% of capital. Now, from a current 51%, it aims to whittle debt down below 40% of total capital. Chief Financial Officer William J. O'Neill Jr. says Polaroid is looking forward to eventually expanding again. "We're on the phone with our investment bankers," he says.

Others figure the best way to get out of debt is by selling stock (table). HCA Hospital Corp. of America intends to apply the \$558 million it seeks in a U.S. public offering, plus stock sold overseas, to help trim some of its hellacious debt from a 1989 leveraged buyout.

Luckiest among debt-heavy companies are those with floating-rate debt—that is, with rates pegged to such benchmarks as the prime rate, which banks

charge their most creditworthy customers, or the London interbank offered rate, used by banks dealing in U.S. currency held in Europe. RJR Nabisco Inc. pays just 0.62 points over LIBOR, now 4.4%. Result: an interest tab of only 5% on its \$3.5 billion in bank loans. Compare that with the 12.3% RJR paid in 1989.

Low rates could even help U.S. exports. They hurt the dollar, since they make the greenback less attractive to foreigners. This makes American goods cheaper and more competitive overseas. That's what Convex Computer Corp. is counting on. With the dollar on the upswing in 1991, the Richardson (Tex.) computer maker saw international sales dip to 45% of sales from 54% in 1990. This year, says CEO Robert J. Paluck, Convex should regain the lost ground.

How long will this pleasant climate last? For equity capital, the outlook is sunny, provided that the economy recovers the way Wall Street expects by mid-year. But a recovery could send rates higher. If so, this would make debt reduction a right-now thing. That's what Cleveland's Reliance Electric Co. figures, anyway. The motor maker is eyeing a refinancing of its \$600 million in junk-bond debt, taken on in a 1986 LBO. Rates may not be this low a year from now, says Assistant Treasurer John D. Hutson, so "there's some urgency." Corporate America has got the word.

By Larry Light and Leah Nathans Spiro in New York, with Wendy Zellner in Dallas and bureau reports



TRIM SOME OF ITS DEBT

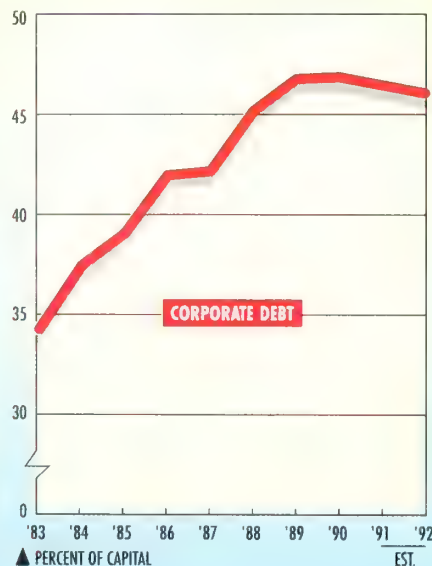
EASING THE DEBT LOAD

A RAFT OF NEW STOCK OFFERINGS...

COMPANY*	FILING AMOUNT MILLIONS OF DOLLARS
CHEMICAL BANK	\$1,007
HCA - HOSPITAL CORP. OF AMERICA	558
MARGARETTEN-FINANCIAL	223
SCECORP	222
FOODMAKER	189
TNT FREIGHTWAYS	185
NATIONAL RE HOLDINGS	166
SCOTTS	157
ELECTROCOM AUTOMATION	138
BIOGEN	121

*EXPECTED TO ISSUE IN THE U.S., JANUARY OR FEBRUARY, BASED ON REGISTRATION STATEMENTS
DATA: SECURITIES DATA CORP.

...WILL HELP EASE CORPORATE DEBT



DATA: MOODY'S INVESTORS SERVICES INC.

Commentary/by Robert Neff

WHEN WILL BUSH STOP THINKING SMALL ON JAPAN?

It could have been a watershed. With the U. S. economy in the tank and with such big companies as IBM and General Motors Corp. shrinking, President Bush might have seized the moment at the summit in Japan to redefine America's relations with its most important economic rival. But he didn't come close.

The President painted himself into a corner even before he set foot in Japan. He made the right call by focusing the summit on U. S.-Japanese economic ties. And despite his bout with the flu, Bush no doubt astounded Japan's leaders by rolling up his sleeves and digging in on trade, a task traditionally left to advisers. Trouble is, Bush was thinking small: He let reelection politics set the agenda.

Looking for a quick fix that might show American voters he was fighting Japan for their jobs, Bush used stale tactics shown in the past to be ineffective. For instance, hoping to wring some concessions out of Tokyo—mostly an increase in U. S. auto imports—he raised his voice in a shrill plea. But he sounded more like a traveling salesman than a cool, global thinker who understands that relations with Tokyo are on the threshold of big change.

USELESS UMBRELLA. New realities mean the President must face new facts: The U. S. no longer holds as much sway over the Japanese. With the Soviet empire defunct, Japan doesn't need the U. S. military umbrella. Nor, as its influence spreads across Asia and beyond, does it rely as heavily on the U. S. market as it once did. Japan's exports to Asian neighbors, for example, are outpacing those to America.

Bush is reading from last year's playbook. Having been so intently focused on the gulf war and the Soviet unraveling, the White House remains preoccupied with maintaining Japanese military and diplomatic support. While there are Japan experts within the Ad-

ministration who are pushing for a new economic relationship with Tokyo, fresh approaches to coping with Japan's power rarely make their way past Bush's ideological gatekeepers.

Beyond Bush's tough talk on autos, the Japanese know they probably got off easier at this summit than they would have with any other President. True to form, Japan managed to placate Bush by making concessions that may boost U. S. exports to Japan a tad.

The heart of the issue, however, is

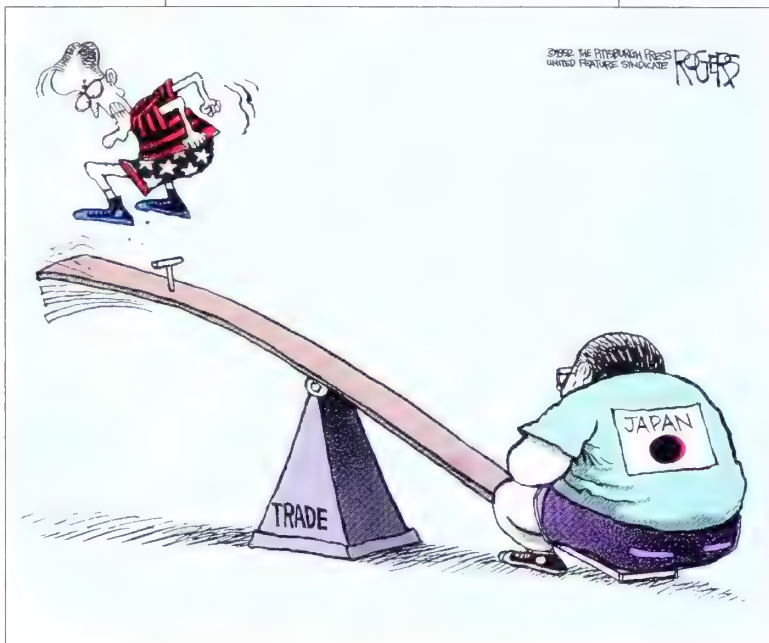
ington's Economic Strategy Institute. "Not only do we not understand the Japanese, we don't understand how our policies are affecting us." The options include fresh investment in public education, cutting the budget deficit, an industrial policy that would include tax incentives for research and investment, and easier antitrust enforcement that might allow the emergence of U. S.-style *keiretsu*, or conglomerates.

It wasn't necessarily a bad idea to take along 21 U. S. CEOs. But Bush

made some poor choices. Why invite the heads of Detroit's Big Three—symbols of America's industrial weakness? Although they produce cars in Europe, they have trouble exporting cars made in the U. S. With Chrysler Corp. President Lee A. Iacocca in the spotlight, the issues at the summit boiled down to whether Tokyo would start buying Detroit's right-hand-drive cars. That may play well back home in an election year, but it won't help create new jobs in an industry that is lagging in efficiency and quality.

Iacocca's complaints, in fact, drowned out the voices of some of the real winners in the entourage. Bush should have limited his business guests to heavyweights who are meeting Japan's challenge. Among them: Motorola Inc.'s Robert W. Galvin, who cracked the cellular-phone market, and TRW Inc.'s Joseph T. Gorman, whose auto parts sell well in Japan. They're the ones qualified to teach U. S. executives a lesson or two.

With many U. S. businesses contracting, Bush is likely to be the last President who can afford to ignore Japan's global might. "In a situation that requires surgery, to continue fooling around with Band-Aids and ointment is stupid," observes Dutch analyst Karel van Wolferen. But until the U. S. begins to heal itself, it will prove harder and harder to compete with America's No. 1 rival, Japan.



not sales in Japan. Granted, the Japanese must open their markets a lot wider, and Bush should keep using a velvet glove, a crowbar, or whatever it takes to help get them open. But as industry after U. S. industry succumbs to Japanese competition both at home and abroad, Bush hasn't begun to describe a strategic economic vision. "One of the reasons we are not competitive is that we don't have competitive government policies," says Clyde V. Prestowitz Jr., president of Wash-

'In a situation that requires surgery, to continue fooling around with Band-Aids and ointment is stupid'

THIS YEAR, EVEN THE ECONOMISTS HAVE A PLAN

At the AEA meeting, public-policy prescriptions abounded

Their cocktail chatter may be full of such obscurities as "deltas" and "nonconvexities." But in one important respect, academic economists are like almost everyone else in the U.S. right now: They're deeply worried about an economy going nowhere fast.

That's why many of the nation's economists are suddenly full of public policy prescriptions for kick-starting the U.S. economy. Indeed, *BUSINESS WEEK* Associate Economics Editors Christopher Farrell and Michael J. Mandel found a new mood at the recent annual meeting of the American Economics Assn. in New Orleans, attended by 7,000 academic and government economists. The activist tone of the convention marked a big change from recent years, when most economists avoided questions of macroeconomic policy. This time round, two refrains were unmistakable. First, action needs to be taken to get the economy moving again. Second, encouraging new investment is mandatory. As Harvard University's Benjamin A. Friedman put it: "What America needs is more investment in new factories, new machinery, new research, new infrastructure, and a better-educated work force—and not more consumption." That's not all *BW* picked up at the convention:

Fiscal stimulus. The quickest way to reverse the economy's downward spiral is to give money—and lots of it—to budget-strapped states, said several economists at the conference. Local governments could use the funds to "stop

'What America needs is more investment . . . not more consumption'

BENJAMIN FRIEDMAN
Harvard University



cutbacks that would otherwise occur, like laying off policemen and firing teachers," says Lawrence Summers of the World Bank. Hyman P. Minsky, of the Jerome Levy Economics Institute, recommends injecting \$25 billion or so into depleted state coffers, with one big restriction: He would require states "to freeze real wages of public employees" to ensure that the money will go toward schools, roads, and other productive uses.

■ **Tax reform.** Washington may want to fight the recession by cutting taxes, but that notion mostly got short shrift from the assembled economists. They gave lukewarm support to an investment tax credit, and a cut in the capital gains rate didn't excite them either. Gimmicks, such as using individual retirement accounts to finance other tax cuts, were dismissed as encouraging consumption rather than investment. Proposals of that sort indicate that "the level of fiscal irresponsibility in the 1980s is now being exceeded," complains Joseph E. Stiglitz of Stanford University.

The economists did have some ideas for reforming the tax system. Some fretted about high taxes on lower- and middle-income Americans, a welcome change for a profession that usually has not worried about the distribution of income. At the same time, the corporate income tax came

under attack for discouraging investment by taxing profits twice, once at the corporate level and again if distributed as dividends (page 32). "It's a monster over our head, a far greater burden on investment than a capital-gains tax," says William Vickrey of Columbia University, the AEA's incoming president. "If you want a change in the tax structure to encourage investment, get rid of the corporate double tax."

■ **Monetary policy.** The Federal Reserve should ease further, most conference participants agreed. Indeed, the positive effects of a looser policy would go beyond cheaper mortgages. "Lower interest rates will make the dollar more competitive and boost our net exports," says Martin Feldstein of Harvard University.

■ **Trade policy.** The U.S. needs to take more aggressive action to open Japanese markets, several speakers noted. "Developing countries and Japan must practice more open markets across the board in manufacturing," says Rudiger Dornbusch of MIT. He would require Japan to import many more manufactured goods than it does now, putting it more in line with other industrialized nations. But no one had a kind word for the Detroit auto executives Bush took along on his Asian trip. General Motors Corp.'s plan to trim its work force by 74,000 while sparing

'You need more public investment to get out of the current recession'

ROBERT EISNER
Northwestern University



the ranks of senior management met with particular ire.

■ **Public investment.** Economists at the meeting were almost unanimous in encouraging spending on the country's run-down roads, bridges, and troubled school systems. "You need more public investment to get out of the current recession and invest for the future," says Robert Eisner of Northwestern University. "It's a quick-fix remedy with long-term benefits," adds Robert N. Pollin of the University of California, Riverside. Still, some gave high priority to reducing the budget deficit. One solution, says Eisner, would separate federal spending into an operating budget for current expenses, and a capital budget for long-term investment. That would let the feds boost spending on infrastructure without adding to the operating budget deficit and spooking financial markets.

'To encourage investment, get rid of the corporate double tax'

WILLIAM VICKREY
Columbia University



BATTLE STATIONS FOR WORKSTATION MAKERS

Nearly all are rolling out new models—and furiously slashing prices

It's easy to understand why David Bennett, Dunkin' Donuts Inc.'s computer chief, is itching to buy workstations for the chain's 2,563 franchises. The souped-up desktop computers—once the exclusive domain of electronic engineers—can analyze financial results and track inventories much faster than personal computers. Installing them could make each of the stores far more productive. But at more than \$10,000 apiece, the machines are too pricey for a store

\$500 million deal for Apollo Computer Inc. HP's Jan. 13 product announcement, for instance, will feature a long-anticipated \$7,000 workstation. But the company, No. 2 in the market, decided over the past few weeks to surprise rivals and drive even further on the pricing front. It now will introduce a \$5,000 machine, too.

HP isn't the only company following a lowball competitive strategy. On Jan. 21, IBM will introduce its first under-\$10,000

At stake is one of the few robust markets in the computer industry. Workstation sales are growing faster than any other segment of the business: Analysts figure sales of the machines this year will jump 27%, compared with 5% growth in computers overall. Declares HP workstation chief Gary Eichhorn, "Workstations will be some of the major fuel for the growth of the computer business in the '90s."

Over the long haul, whichever company sets the technology standard for low-priced workstations stands to control a wider swath of the overall computer industry than the \$11.3 billion workstation market. For one thing, workstations are displacing other types of computers for a host of applications, from running Burlington Coat Factory Warehouse Corp.'s store cash registers to juggling schedules for American Airlines Inc.'s flight crews. And they're doing so at a fraction of the cost of mainframes and minicomputers—and a whole lot faster than personal computers.

BIG DISCOUNTS. Even more important, the hardware and software technologies developed for workstations—such as reduced instruction-set computing (RISC) chips and advanced operating software—could eventually dominate most other kinds of computers as well. Says William Filip, president of IBM's workstation division: "Workstation technologies are important across the whole range of computing."

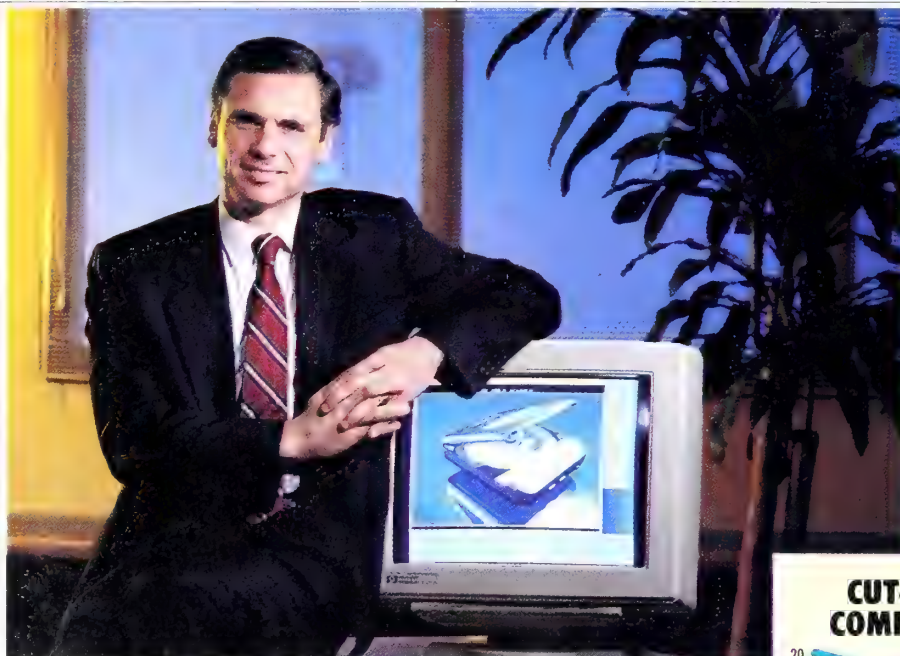
Until now, high prices and the smaller field of competitors have also made workstations a lucrative business: Gross profit margins, at about 50%, are at least 10 points higher on workstations than they are on PCs, says Montgomery Securities.

But thanks to the price war that's breaking out, that may not be true for long. Even Sun, not hurt much by rivals so far, could suffer. Clark Musgrove, president of Sun reseller Entre Computer in Denver, says he is being forced to discount Sun machines as much as 14% these days, compared with no discounting 18 months ago. His gross margins are

now half what they were—though they're still about 5 points higher than his PC margins.

Musgrove had to slash prices on Sun workstations before HP, IBM, and the rest began bringing their bargain-basement models to market. Once those new workstations hit the street, prices will really start falling.

By Robert D. Hof in San Francisco



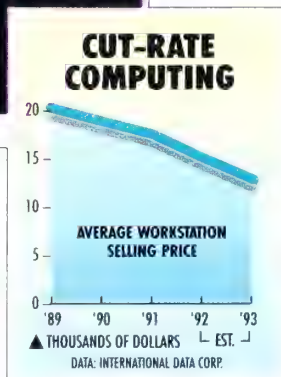
HP WORKSTATION CHIEF EICHORN: SOON, A \$5,000 MACHINE

that sells 43¢ products. Offer one for about \$5,000, Bennett promises, and he'll snap it up faster than you can say: "Coffee and a cruller, please."

Bennett is about to get his wish. In the next few weeks, a half-dozen computer companies are set to unveil workstations priced under \$10,000, with some as low as \$5,000. Their goal: to broaden the market enough to unseat No. 1 Sun Microsystems Inc. "It's going to be a war," acknowledges Lawrence W. Hamblly, vice-president for marketing at Sun.

Sun has long been a target for the other computer companies. But a rival has escalated the conflict. No computer maker is gunning for Sun more aggressively than Hewlett-Packard Co., which in 1989 catapulted into the market with a

workstation. Silicon Graphics Inc. plans to release an upgraded version of its \$9,500 base-model graphics workstation on Jan. 28. Digital Equipment Corp. this month starts shipping two under-\$5,000 workstations. By summer, the first of dozens of PC makers in the Advanced Computing Environment (ACE) consortium formed last April to set workstation technology standards could start selling workstation-like PCs. And Sun? It remains cagey, but the company is expected to introduce a \$4,000 color machine within the next few months—after it gets a good look at what the competition has to offer.





CLEARED FOR TAKEOFF: HARRIS' ADVANCED SYSTEM FOR THE FAA OUTDID AT&T'S

HARRIS IS LOOKING SHARP IN CIVVIES

A \$1.66 billion air-traffic deal will help it kick the defense habit

There's nothing like slaying a giant to bring the year to a stirring conclusion. That's just what Harris Corp. did on Dec. 31, when it snatched a Federal Aviation Administration contract away from American Telephone & Telegraph Co. Not just any contract: AT&T had held it since the 1960s. The deal, part of the FAA's \$15 billion-plus overhaul of the U.S. air-traffic-control system, will revamp the voice communications that link pilots and air-traffic controllers.

It's also a crucial part of Harris' effort to remake itself from a company that once relied almost entirely on defense orders. "It's certainly a crown jewel in a set of things we've done since 1986 to diversify the business," says Allen Henry, president of Harris' Electronic Systems Sector (ESS).

SECOND PASS. The award caps an arduous five-year competition with AT&T. So rigorous were FAA requirements that neither company's prototypes passed the FAA's tests in October, 1990. The agency gave both bidders another year, and ESS went to work. "We took it to heart when we did not pass those tests in October," says David Halley, who in January, 1991, was put in charge of winning the FAA contract.

Halley rallied his 500 troops with pep talks, then cracked the whip. Vacations were delayed, and 15-hour days became the norm. One engineer postponed her wedding by two months. Another worked 42 days straight to meet the final review schedule.

The effort paid off. "Harris excelled over AT&T in all of the technical areas," says James Busey, acting Transportation Secretary. So impressive was Harris' performance that the FAA chose Harris even though its bid totaled \$1.66 billion, compared with AT&T's \$1.45 billion. Howard Anderson, president of researcher Yankee Group, figures the FAA pact should catch the attention of commercial customers. He says: "We think this is a watershed event for Harris," adding that potential clients are now "going to look at the FAA and say: 'We ought to put Harris on our short list.'"

That should bode well for Henry's efforts to diversify his business. Known as the Government Systems Sector until 1989, ESS has been the heart of Harris'

defense-related business. Henry is out to change that. Defense contracts should drop from 75% of ESS's business in 1986 to 60% this year and 46% by 1995 (chart).

If that goal is reached, the pace of change at Harris may slow. CEO John T. Hartley has put the company through an almost continuous make-over since 1986. At the moment, Harris' businesses break down into electronics, communications, and two problem areas: semiconductors and Lanier business systems.

SMOOTH LANDING? Those two operations have given Harris fits. Fiscal 1991, which ended last June, was rough by almost any measure. Harris earned only \$19.4 million, after a \$73 million charge to restructure the semiconductor unit, on revenues of \$3.04 billion. The year before, it earned \$131 million on sales of \$3.05 billion. Those woes continued in the first quarter, ended Sept. 27. With the recession battering semiconductors and office products, earnings fell 37%, to \$12.8 million, on a 5% drop in sales, to \$686 million. For all of fiscal 1992, analyst Joseph Bellace at Merrill Lynch & Co. predicts operating income of about \$90 million. Like earnings, the stock has been all over the place, recently rebounding to 29, up from a January, 1991, low of 18 1/4.

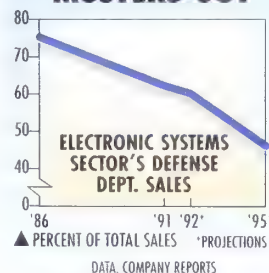
The hope around Harris' Melbourne (Fla.) headquarters is that the FAA contract, combined with new strategies for semiconductors and Lanier, will end the run of bad news once and for all. But AT&T could bring the celebration at Harris to an abrupt end. The phone company is now mulling over whether to file an appeal. "We're trying to determine why the FAA rejected a bid that would have saved a considerable amount of taxpayer dollars," says John Stubblefield, spokesman for AT&T's Federal Systems Advanced Technologies.

Barring such an appeal, Harris is scheduled to install its first air-traffic-control system at Seattle-Tacoma International Airport in the spring of 1994. New systems would then go into at least 24 other airfields. Options and extensions could nearly double that figure.

Meanwhile, Halley is already talking to aviation authorities in Europe and Asia. And not just about air-traffic control. Harris also sells systems that handle weather forecasting and communications, and it has a satisfied customer in the FAA. As Halley realizes, though, winning more big accounts will require tangling with a few more Goliaths.

By Gail DeGeorge in Miami, with Seth Payne in Washington

HARRIS MUSTERS OUT



Commentary/by Howard Gleckman

IS DOUBLE TAXING A BAD IDEA? YES. DOES WASHINGTON WANT TO KNOW? NO.

A just-released Treasury Dept. study asks some provocative questions about the tax code's impact on the economy. Should the government continue to tax corporate dividends twice? Do tax laws encourage businesses to abandon a corporate structure in favor of partnerships? Most important, should the U.S. go on offering big subsidies to corporate borrowers by allowing deductions for interest payments but not for dividends?

Alas, the 268-page report on integrating individual and corporate income taxes seems doomed to collect dust while Congress and the Administration haggle over an election-year tax cut. Although Treasury staffers devoted five years to the study, the department's top officials are treating it as little more than an academic exercise. Secretary Nicholas F. Brady, who professes deep concern over business's excessive debt, didn't even put his name on the report. While the study looks favorably on a couple of alternative tax structures, it makes no recommendations. And it offers no way to pay for money-losing propositions. The message: Don't expect the Bush Administration to try to turn the ideas into law anytime soon.

LONG VIEW. Assistant Treasury Secretary for Tax Policy Kenneth W. Gideon, who struggled to get the study released before he leaves government at the end of January, takes the long view. "This is an issue we are going to have to deal with in the '90s," he says.

No kidding. The tax code helped create the imbalances that have brought the economy to its present pass. The 1980s debt boom was largely driven by a tax system that allows companies to deduct interest payments but not dividends. The U.S. is among the last of the major industrialized nations to tax profits twice—once when they're earned by corporations and again if they're paid as dividends to investors.

The tax code's flaws can be corrected. The simplest solution would allow taxpayers to exclude from income the dividends they receive, leaving corporations to pay all taxes on profits. Or corporations could act much like partnerships and pass their tax liability straight through to shareholders.

DYNAMITE. A third alternative, one that has support among Treasury staffers, is the so-called Comprehensive Business Income Tax. Under this scheme,

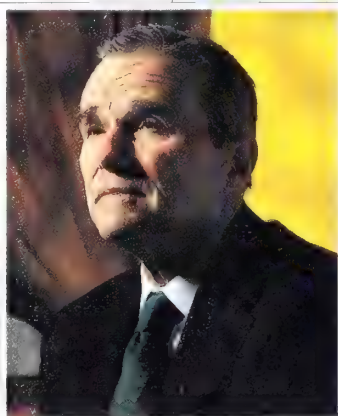
corporations could deduct neither interest nor dividend payments. But investors would pay no tax on the income they receive from either stocks or bonds.

These proposals are all political dynamite. Some might be attacked as tax breaks for the rich or for companies. And management is cool to any tax change that would cause shareholders to look harder at the profit-and-loss statement.

Pension funds, which enjoy great tax advantages over other investors, would howl. So would state and local governments, whose tax-exempt bonds might lose much of their allure. But, for now, supporters of the status quo needn't fret.

The White House, scrambling for a magic elixir to get the economy rolling by Election Day, is too busy to think about long-term structural reform of the tax code. Nor is Congress paying attention. While lawmakers are falling all over themselves sponsoring bills that would cut a middle-class family's annual tax bill by a few hundred bucks, just one, Representative Guy VanderJagt (R-Mich.), has tried to address tax integration.

The Treasury report raises important issues. But these days, the political system's response to long-term problems is to wish them away. That's what it has tried to do with the budget deficit. And, sadly, it's about to do the same with the problems of double taxation and tax-favored borrowing.



BRADY DIDN'T EVEN PUT HIS NAME ON TREASURY'S REPORT

LEGAL AFFAIRS

'I'M FRIGHTENED FOR MY LIFE'

The FDA's action on breast implants will spur more lawsuits

Karen Reid vividly recalls when she heard something pop in one of her surgically enhanced breasts nine years ago. Within weeks, Reid, then a 28-year-old Army financial specialist based in Virginia, felt pains in her shoulder. Then came immunological problems and nodules popping up on her arms and legs. She's sure the source of her problems is silicone that spewed from the ruptured breast implant. "I wish I had kept wearing a padded bra," she says. "I'm frightened for my life."

She's also mad enough to sue for millions in damages from the implant's maker, Dow Corning Corp. And she's about to have a lot of company. On Jan. 6, Food & Drug Administration Commissioner David A. Kessler ordered a 45-day moratorium on the sale and use of silicone gel implants. That decision will widen the legal floodgates for suits against implant makers Dow Corning, McGhan Medical, Mentor, and Bioplasty.

'SERIOUS RISK.' Already, more than a hundred lawsuits are pending. And since more than 2 million women in the U.S. received breast implants over the past 30 years, if the implants are proved harmful, the potential liability for the companies could be staggering.

The implant makers insist that their products aren't dangerous. But fighting lawsuits while satisfying the FDA will be a tough struggle, especially for Dow Corning. Attorneys for Mariann Hopkins, who in December won a \$7.34 million judgment against Dow, say that internal Dow memos describing worrisome implant problems were key to their case.

Those documents helped persuade Kessler to issue the temporary ban. Now, the fate of many lawsuits and implants themselves is riding on what the FDA does next. A good bet: treating the implants as new and untested products. To sell the devices, the companies would have to complete rigorous scientific studies. Says Gerald Kuester of the Public Citizen Health Research Group: "The sooner these implants are off the market, the sooner a safer one will be found." Dow Corning and the other makers of the devices say a safe product already exists. But now, they must meet an even heavier burden of proof.

By John Carey in Washington

Because new Microsoft Works does everything from mailing lists to business plans, it can put any business on a roll.



Why, just talk to Don Schulze, owner of "Shultz's." Don uses new Microsoft® Works for Windows™ to run almost his entire business. And the reasons

are simple. Works comes complete with a word processor, spreadsheet, charting, database and drawing tools. Or, as Don would say, *"It comes with the works."* So it's ideal for any small business.

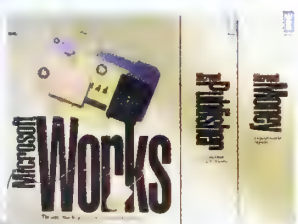
And since everything works together,

it's very easy to do things like prepare customer mailing lists, financial analysis, business plans and much much more.

Furthermore, because it's Windows-based, it works a lot less like a computer and a lot more like you.

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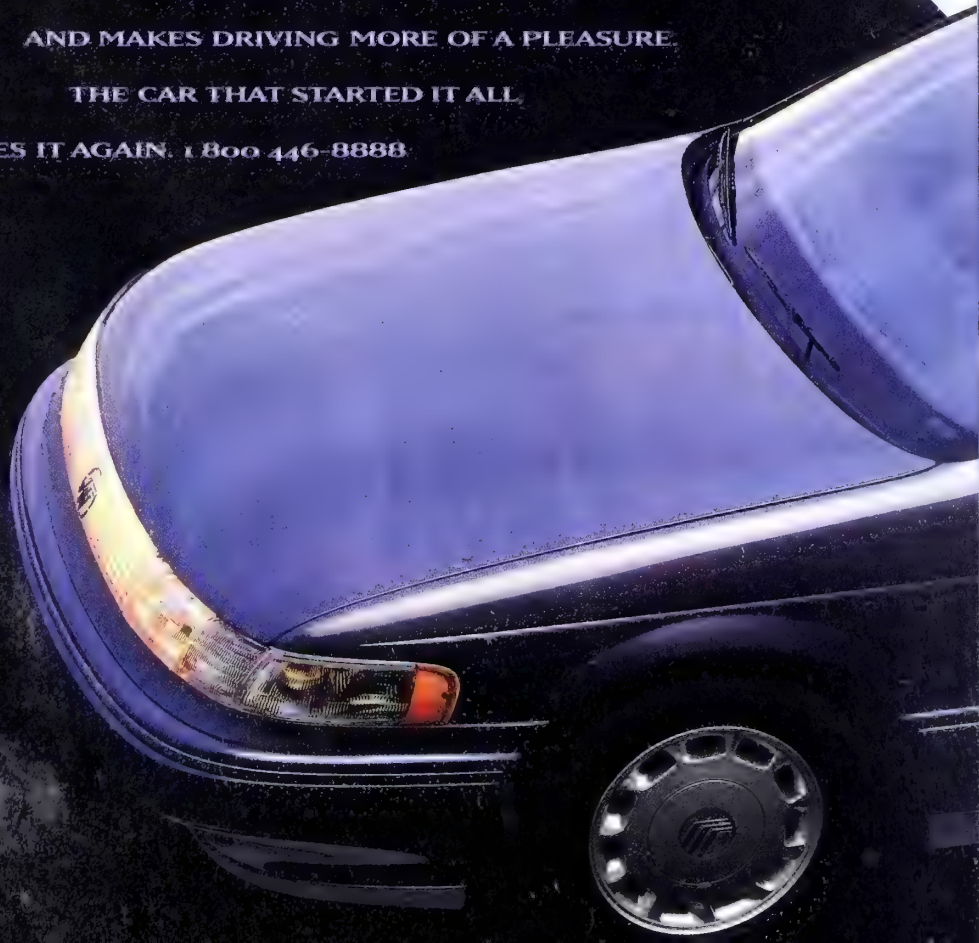
WE DRESSED IN SILENCE.
AND DROVE.
WHEN WE WALKED IN,
SHE SAID SOMETHING TO THE PIANO PLAYER.
NEXT THING, I HEAR THIS SONG WE USED TO LOVE.
SHE TAKES MY HAND. WE DANCE. AND SOMETHING
THAT WAS THERE BEFORE, WAS BACK. ONLY STRONGER.

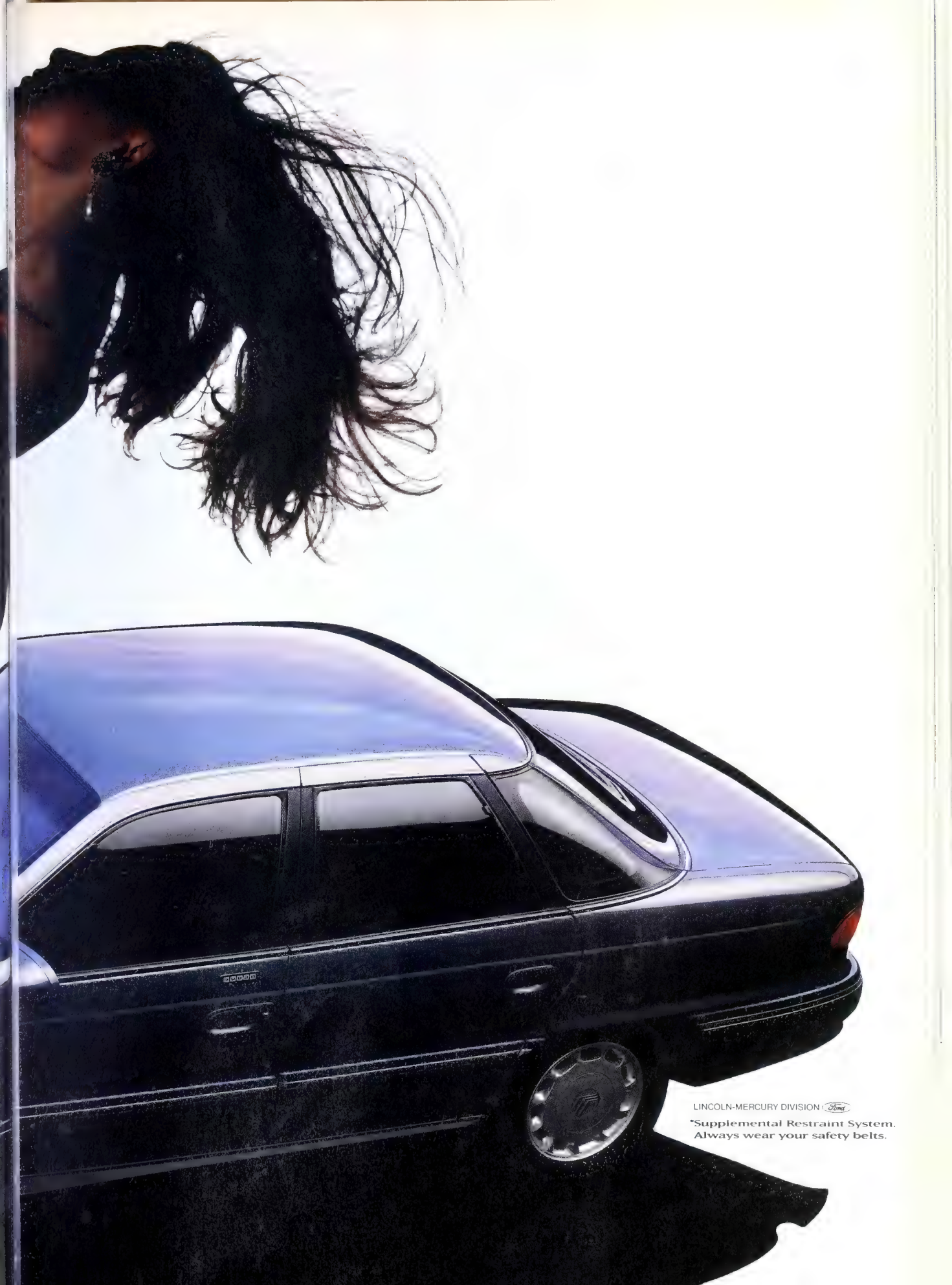


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HEARTBREAK HOTEL FOR TOURISM

It's having a wretched quarter, but the industry's loss is tourists' gain

If you were lucky this Christmas, you might have glimpsed Kevin Costner or Danny De Vito schussing down the slopes of Deer Valley Resort in Utah. Maybe you saw Sylvester Stallone and Barbra Streisand in the lift line in Aspen. And soon you may cross ski tips with Kathryn S. Keller. Kathryn who? She's a Boulder real estate agent who would rather celebrate her 40th birthday in a different location. "One of those Club Med places or the Virgin Islands," the mother of two says wistfully.

The culprit: the recession, which blew away Keller's winter vacation plans, not to mention her husband's job. And much of the U. S. travel industry is lamenting along with the couple. A year after the gulf war and terrorist worries persuaded many travelers to stick close to home, lengthening economic woes are keeping many of them there again.

That's good news for those willing to make last-minute plans. Hotels, eager to fill rooms, are slashing their usual rates. And while air traffic jumped 6% over last year during the December holiday period, there are still good deals to be had for trips to Europe, Orlando, and elsewhere.

BLOODY MAUI. The best bargains, though, are on the ground. "We've got a commodity—a room—that's only got a one-day shelf life, so we have to move it," says Bill Evans, general manager of the 319-room Bahia Resort Hotel on San Diego's Mission Bay. The Bahia cut its usual room rate of \$125 to \$69 in January to stir up business. And it isn't doing badly: It anticipates a 75% occupancy rate that month, Evans says, compared with 60% for many other San Diego hotels. Even the classy Hotel del Coronado near San Diego is cutting some room rates and

throwing in free breakfasts in January.

San Diego's woes look good next to an increasingly overbuilt Hawaii. There, reports hotel consultants Pannell Kerr Forster, late-1991 occupancy levels had fallen to 73% from 77% the year before—and lower than 60% when you venture off Oahu.

The quick fix: deep price cuts. At the 22-acre Maui Intercontinental Resort, where occupancy in February is expected to be 73%, vs. 82% in 1991, rooms that normally go for as much as \$279 a night can be had for \$159. Elsewhere, the cutting is nearly as aggressive (table). The Seabrook Island Resort in South Caroli-

na not only cut its \$140-a-person rate to \$110 but also picks up the tab for greens fees and golf cart rental. Carnival Cruise Lines offers a two-for-one fare from Florida to the Caribbean and back.

Not every area of the country is as hard hit. Thanks to the best snow conditions in years, activity at ski resorts in Colorado, Utah, and elsewhere is up by as much as 20% over last year. But many skiers are jetting in for shorter stays and spending less in boutiques and restaurants.

To counter the slowdown, promotions are busting out all over. The Las Vegas convention bureau recently allocated \$1.3 million for a radio and television campaign in key markets. To help fill its rooms, Hyatt Hotels Corp. has begun arranging its own air packages to Hawaii and the Caribbean. "The idea is to do everything but cut your rates," says Christopher Baum, marketing vice-president for Hilton Hotels Corp., which is giving a Chrysler car each quarter to the guest who stays the most often.

Giveaways may work where the lure of a major event seems to have failed. A month before the Feb. 8 start of the Winter Olympic Games in Albertville, France, at least 10% of the 400,000 available beds in the French Alps region are unsold. Ticket sales were extended, hotels are cutting rates, and some corporate sponsors have had to resell tickets bought for uninterested guests.

SPECIAL GUEST. If the Olympics can't draw a crowd, the weaker greenback still can. European travelers are picking up some of the slack in Orlando and the Caribbean. And Japanese tourists seem to be returning to Hawaii and Southern California.

GO USA, a coalition of 50 travel-related companies, is using a very special guest star in an ad that tries to lure the British to the U. S. "What are you waiting for," George Bush implores in the spot, "an invitation from the President?" If the pitch works, maybe the group ought to buy some time in the U. S.

By Ronald Grover in Los Angeles, with Sandra D. Atchison in Denver, Gail DeGeorge in Miami, and bureau reports

LURING THE RELUCTANT WINTER TRAVELER

FANTASY ISLAND

Kapalua Bay Hotel & Villas on Maui is offering five nights for the price of four, plus a \$100 food credit

FRIENDS FROM NEAR AND FAR

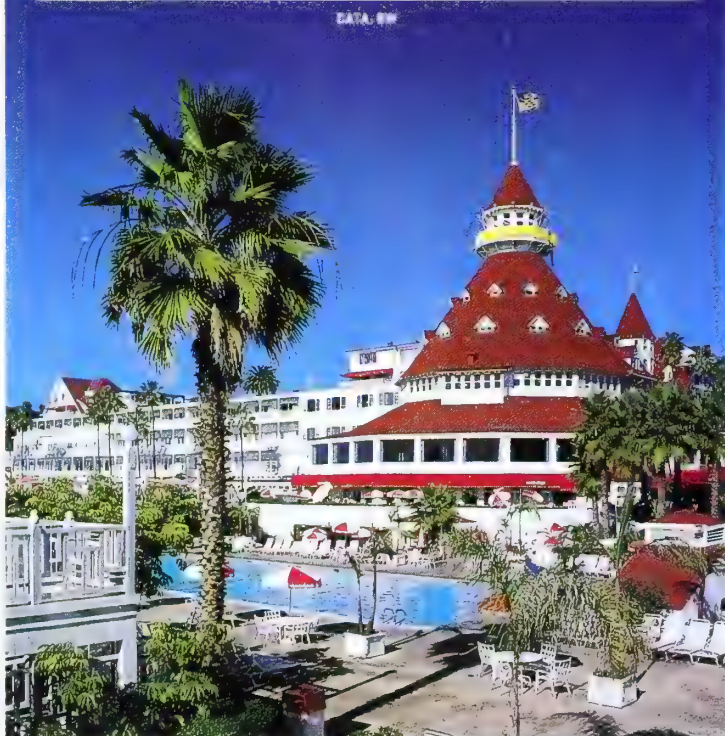
Folks living near Disneyland get 37% off an adult ticket to the park. Out-of-towners at the Disneyland Hotel get cut-rate rooms and free park admission

DEALS ON WHEELS

Stay three nights at the Princess Resort in Scottsdale, Ariz., and the hotel will pay for your rental car

CURE FOR LONELINESS

Carnival Cruise Lines offers two-for-one deals from Port Canaveral to the Bahamas



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SONY



THE INS AND OUTS OF '92

Downwardly mobile professionals? Greater Germany? Macaroni and cheese? What's going on here?

Yikes! BUSINESS WEEK's fad-and-fashion watchers have surveyed the scene, and here's their conclusion: The '90s are the '30s all over again. Consider: Mac 'n' cheese is way in. Dumpies, downwardly mobile professionals, are hip. In Washington, national health care and public works

programs are hot. The workplace looks like granddad's, too—with speedups, insecurity, and firings galore. Not all is retro, thank heavens. We've got step aerobics and pay-per-view TV. Not to mention Annette Bening and Nick Nolte. Eat yer heart out, Pop.



A NEW APPLE-PIE ORDER



THEY'RE BAAACK!



BEING: BOFFO IN BUGSY

WHAT'S IN

POLITICS & ECONOMICS

Dems woo the middle class	Dems woo the poor
The GOP woos the middle class	The GOP woos the rich
Minsk	Moscow
Greater Germany	Europe '92
National health care	Points of light
Tax cuts	Budget worries
Quota-bashing	Willie Horton-bashing
Economic struggle with Japan	Cold war with the Soviets
Harvard Economics	Chicago School

WHAT'S OUT

MANAGEMENT

Grousing about long hours	Boasting about long hours
Gender-sensitivity training	Sexual harassment
Speedups for workers	Fat pay for bosses
Skills portfolio	Organization Man
Lean manufacturing	Mass production
Firing	Early retirement

FINANCE

Merrill Lynch	Salomon Brothers
The Dow	The Nikkei
Short-term bond funds	Money-market funds
IPOs	Credit-card debt
Small-cap stocks	CDs
Elaine Garzarelli	The Feshbach brothers
Fixed-rate mortgages	Floating-rate mortgages

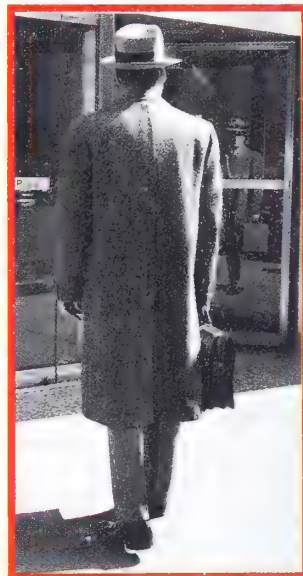
SOCIAL TRENDS

Dumpies*	Yuppies
Pay-per-view	Video rentals
Annette Bening	Kim Basinger
Nick Nolte	Kevin Costner
Macaroni and cheese	Pesto
Cabbage Patch dolls (again)	Ninja Turtles
Beverly Hills 90210	L.A. Law
Step aerobics	Personal trainers
Sideburns	Ponytails
The Gap	Ralph Lauren
Garth Brooks	Michael Jackson

*Downwardly mobile professionals



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In Business This Week

EDITED BY HARRIS COLLINGWOOD

HOW HOLLYWOOD SLICED THE PIE

U.S. moviegoers bought \$4.7 billion worth of tickets in 1991 (*Daily Variety* kept counting until Jan. 5, 1992), down from more than \$5 billion the year before.

The revenue shortfall was hard on some studios, notably Paramount and Universal. By contrast, Sony Corp.'s two filmmaking units, Tri-Star and Columbia, made big strides in a generally down year

STUDIO	MARKET SHARE	
	1990	1991
WARNER BROS.	13.1%	13.9%
WALT DISNEY	15.5	13.7
PARAMOUNT	14.9	12.0
FOX	13.1	11.6
UNIVERSAL	13.1	11.0
TRI-STAR	9.0	10.9
COLUMBIA	4.9	9.1
ORION	5.6	8.5
NEW LINE	4.4	4.0
MGM-PATHE	2.8	2.3

DATA: DAILY VARIETY

BRISTOL-MYERS GIVES UNCLE SAM A BREAK

► Hoping to head off congressional pressure for lower drug prices, Bristol-Myers Squibb on Jan. 7 said it would cut the prices it charges the federal government. Uncle Sam will now pay prices comparable to those that state Medicaid programs pay. The feds, for instance, will pay \$34.05, down from \$38.22, for a 100-pill bottle of Capoten, an antihypertensive. The nongovernment price: \$45. Bristol still expects to raise consumer-market prices as needed, and it anticipates no damage to profits: It figures the government, its biggest customer, will just buy more drugs.

PASSING THE TORCH AT THE POSTAL SERVICE

► When Anthony Frank took over as Postmaster General in 1988, friends warned him he was taking on a thankless

task. But Frank, who said on Jan. 7 that he would step down effective Feb. 28, made headway against the Postal Service's stubborn bureaucracy. He slashed the payroll and sped up automation plans. Still, the service posted a \$1.6 billion deficit in 1991. His probable successor: Federal Trade Commission Chairwoman Janet Steiger.

A SEMATECH FOUNDER JUMPS SHIP

► Sematech, the semiconductor-research consortium, has lost a founding member. LSI Logic, a Milpitas (Calif.) developer of custom circuits, objected to Sematech's practice of investing directly in manufacturers of chipmaking equipment. It's also suffering financial problems, and LSI's defection comes as Sematech is seeking \$100 million in new federal funding to match a like amount from consortium members. The Austin (Tex.) consortium says LSI's departure will have "minimal effect" on its funding.

COMING: FEWER SHADY CHARACTERS ON TV

► Ghostbusters are back. No, not the movie, but a new technology that can erase the dual images, known as ghosts, that have annoyed TV viewers for years. The National Associa-

DIVORCE, RECESSION STYLE

In a recession, entrepreneurial behavior often takes on a ghoulish cast, but this may be a new low. Philadelphia lawyer Neil Stein suggests that business owners with troubled marriages should untie the knot while times are hard.

Here's his reasoning: With their businesses worth less in a recession, owners could win lower settlements when courts divvy up the assets. "From the business owner's point of view, now's a good time to get out," says Stein. By the same token, though, the owner's spouse might want to keep the marriage limping along until the economy improves.

Maybe Stein just knows his demographics and is preparing for lean times in his own profession. You see, there were only 2.4 million marriages in the 12-month period ended last August, down 40,000 from a year earlier. Ergo, the number of breakups should also trend down. For every silver lining, a cloud.

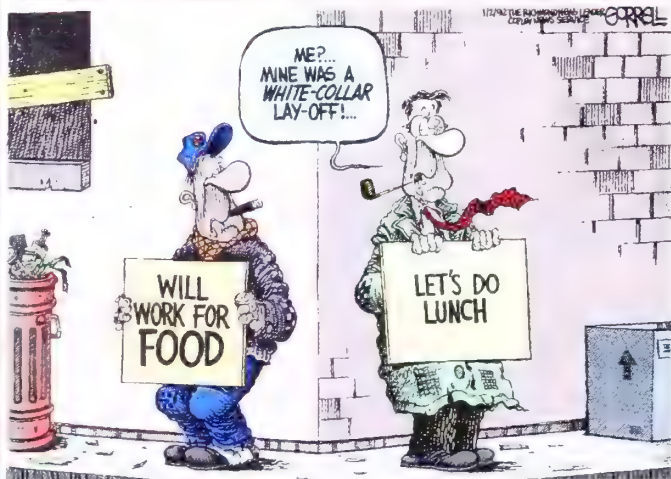


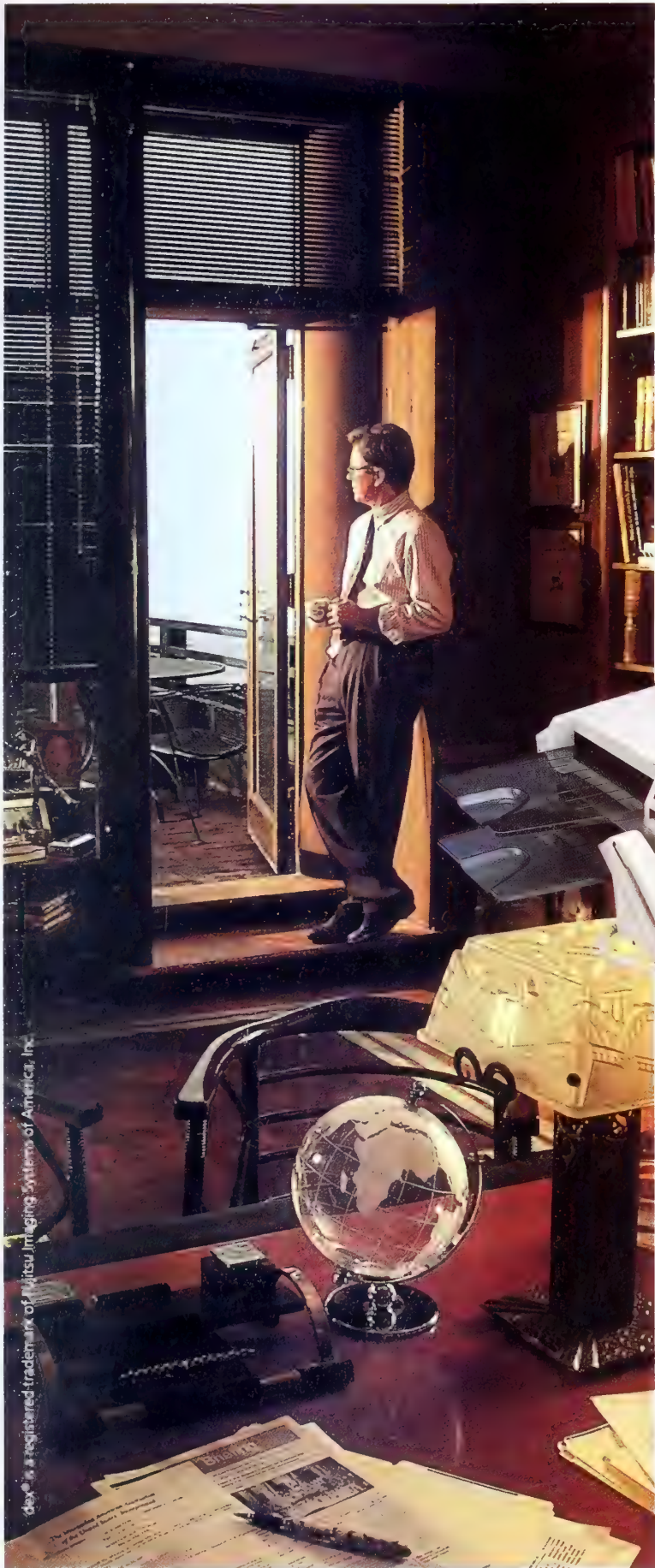
SEARS GETS TRIM FOR THE NEW YEAR

► Sears Roebuck is spending \$60 million to automate 6,900 clerical jobs out of existence. On Jan. 7, the troubled retailing giant said it will install 28,000 computerized cash registers at its 868 stores in the U.S. The move should reduce annual operating expenses by about \$50 million. Separately, Sears announced plans to sell a minority stake in its credit-card processing unit. A company spokesman says that Sears may sell other "peripheral" businesses.

BUSH MAY STRAFE THE STEALTH BOMBER

► The B-2 bomber is about to take a grave blow. In his Jan. 28 State of the Union address, President Bush is expected to ask for as few as 20 of the stealth bombers, whereas the Pentagon originally wanted 132. The demise of the B-2 may be good news for taxpayers, who'll save up to \$25 billion. But the announcement won't exactly delight Northrop, which derives half its \$5.5 billion in revenues from B-2 work.





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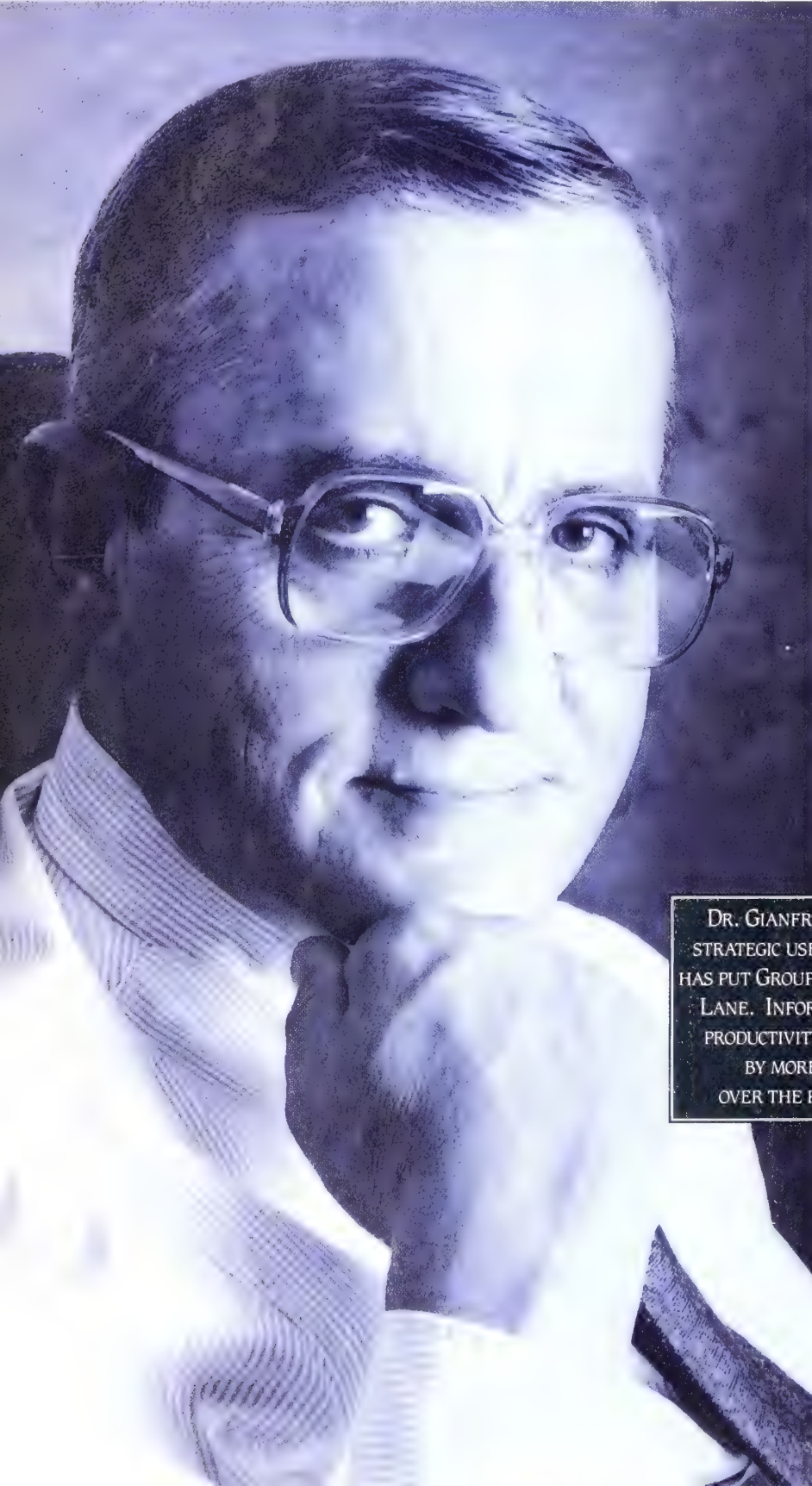
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With all that going on, Pirelli's IS Department wasted no time in making productivity its top priority. "Our industry moves quickly," says Dr. Gianfranco Cappelli, Pirelli's Corporate IS Director, "and turn-around is very important. We always have to know our clients' needs. And we're constantly trying to improve our delivery times."

Since Pirelli switched to CA software six years ago, productivity at both mainframe and PC levels has raced ahead by more than 30%.

"But best of all, CA is the most reliable partner I've ever worked with," declares Cappelli. "I like to think of them as a pit crew. Their service and support is tremendous. And they develop new products that always seem to fit our needs perfectly. You

don't know how much we appreciate that."

So where does that leave Pirelli?

"Taking the checkered flag, of course."

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HEALTH CARE: FINALLY, A PULSE AT THE WHITE HOUSE

With poll after poll finding that health care has become a top voter concern, President Bush knows he has to offer an election-year response to Democratic cries for action. And with time running out before the Jan. 28 State of the Union address, the Administration may be ready to embrace some radical—for Republicans—ideas for dealing with the problem.

The newest idea being considered, Administration sources tell **BUSINESS WEEK**, would require all companies, including small businesses, to offer their workers health insurance at group rates. The Bush plan would ask employers to pay the administrative costs of setting up plans and dealing with insurers. But unlike the "mandated benefits" schemes pushed by Democrats, it would allow companies to make workers pay the premiums.

'NOT A GIFT.' Another proposal getting a serious hearing is a tax credit of up to \$3,000 to help low-income individuals buy insurance. The credit would be "refundable." In other words, taxpayers owing less than \$3,000 in income tax would get a check from the government for the difference.

At the urging of Health & Human Services Secretary Louis W. Sullivan, the Administration may finance the credit with another very un-Republican approach: income redistribution. Workers who get employer-paid health insurance would pay tax on at least part of the premiums. Business, which solidly opposed taxing benefits during the 1986 tax reform debate, may split because of the pressure that rising health costs have put on companies. "This helps business by drawing their employees' attention to the fact that health care is not a gift," says Ellen Goldstein of the Association of Private Pension & Welfare Plans.

The options remain vague, and some of the more novel ideas could fall by the wayside. Administration officials haven't

costed out the tax credits. Nor have they figured out whether any tax on health benefits should be based on an employee's income or on the value of benefits received. And it's unclear how the new tax-credit plan would work with the existing medicaid program of government-paid health care for the poor.

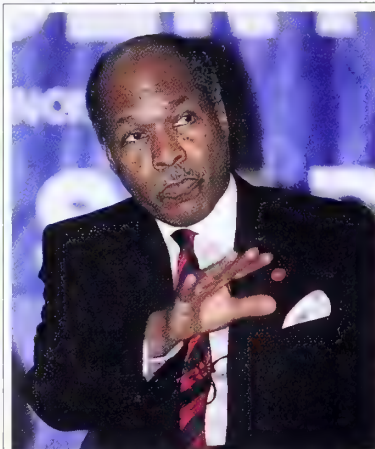
Bush is likely to choose less controversial reforms. One would prohibit insurers from denying coverage to anyone because of an existing medical condition and from limiting benefits for particular diseases, such as AIDS. The Administration is also looking for ways to encourage small businesses to band together and negotiate with health insurers for cheaper rates.

The Administration's plans are being drafted in a hothouse atmosphere. For months, former White House Chief of Staff John H. Sununu suppressed the issue. Then Democrat Harris Wofford won a Pennsylvania Senate election after proclaiming health care a "fundamental right." Bush's slide in the polls and Sununu's exit made health reform a priority. Now Sullivan, Budget Director Richard G. Darman, Treasury Secretary Nicholas F. Brady, Chief Economist Michael J. Boskin, and domestic policy chief Roger Porter are working full speed to develop a plan.

The announcement of the Administration plan will set off what may be the most important policy debate of the year. The Democrats will blast Bush's plan for doing too little to control health costs and to ensure benefits for the middle class. They will call for more drastic changes, either requiring employers to provide paid coverage or setting up a government-run health system.

Congress isn't likely to enact sweeping reforms this year. But now that the Administration is about to join the health care battle, the issue may acquire unstoppable momentum—and reform may well become law in 1993.

By Susan B. Garland



SULLIVAN: AN UN-REPUBLICAN PLAN

CAPITAL WRAPUP

NEW HAMPSHIRE

Economic points of light are hard to come by in recession-riddled New Hampshire. But the White House has found one for President Bush's planned kickoff campaign visit to the state on Jan. 15. Bush's first stop will be at Rochester (N.H.)-based Cabletron Systems Inc., a maker of computer networking equipment. While other New England high-tech companies have been sagging, fast-growing Cabletron earned \$41 million on sales of \$208 million in the first nine months of 1991 and increased its employment to 2,000 from 1,300.

The company is perfect for Bush,

who has taken flak for the fat salaries paid to the executives that accompanied him to Japan. Cabletron's founders, Chairman Craig Benson and President Robert Levine, whose shareholdings have made them rich, pay themselves just \$52,000. And Yankee frugality is almost a religion at the company: Offices are furnished with plain metal desks, conference rooms have no chairs to discourage long meetings, and employees must stay in hotels costing less than \$70 a night.

Bush must make an early splash in New Hampshire. New polls show conservative challenger Patrick J. Buchanan getting a potentially embarrassing 20% to 30% of the GOP primary vote.

TAXES

With all the talk about a big economic-stimulus package, tax lobbyists figured their phones would be ringing off the hook. But so far, they complain, demand for their services has been slow. Many companies and trade associations are hiring lobbyists to keep them up to date, but few are signing up talent to push for their specific wish lists on Capitol Hill. With money tight, they're waiting for details of tax proposals to emerge later this month. One exception: The real estate industry is gearing up to win new tax breaks for home buyers and commercial developers.



SIBERIAN OIL
REMAINS PROMISING
FOR THE WEST

THE COMMONWEALTH

LET'S MAKE A DEAL— BUT A SMALLER ONE

Remember the big Soviet joint ventures? It's a new game now

It was dubbed the Soviet deal of the decade. Six U.S. companies planned to invest billions of dollars in up to two dozen joint ventures in the Soviet Union. In return, a complicated scheme would allow them to repatriate profits in hard currency. When the American Trade Consortium signed its initial agreement with the Soviets in the spring of 1989, it was blessed personally by Soviet President Mikhail Gorbachev.

But now the consortium, like Gorbachev himself, is a relic. Buffeted by the extraordinary political changes of the past three years, the consortium in recent years has quietly suspended its activities. Its key members—Chevron, Ar-

cher-Daniels-Midland, Eastman Kodak, Johnson & Johnson, and RJR Nabisco—still hope to negotiate their own joint-venture deals in Russia, Kazakhstan, and other republics. But many deals are in trouble (table). Says ADM Chairman

LAUNCHING THE COMMONWEALTH

Dwayne O. Andreas: "The consortium is obsolete. The government that the consortium had agreements with no longer exists."

The days of megadeals sealed by vodka toasts in a glittery Kremlin hall are over. Some large ventures, especially in oil, may proceed. But Western companies now are inclined to seek out smaller, simpler deals that can be financed more easily. "The current wisdom is that small projects are beautiful—not big,

SOME PROJECTS ARE BOGGING DOWN...

- ▶ **AMERICAN TRADE CONSORTIUM** Multi-industry effort by six U.S. companies suspended after Soviet government folds
- ▶ **BRITISH AIRWAYS** Creation of new airline, Air Russia, stalled for want of financing
- ▶ **CHEVRON** Huge oil project delayed after Kazakhs demand bigger slice of exports
- ▶ **JOHNSON & JOHNSON** Ventures in medical products delayed for lack of partners
- ▶ **RALEIGH INTERNATIONAL** Proposal to build bikes hurt by post-Soviet confusion

...WHILE OTHERS ARE PROCEEDING

- ▶ **BANKERS TRUST, GOLDMAN SACHS, AND J. P. MORGAN** Setting up privatization deals for Western companies
- ▶ **BOEING** Consultant for new Siberian airport as cross-continent stopover point
- ▶ **FIAT** Takes 30% stake in Russian auto maker VAZ
- ▶ **PENNZOIL** Plans new oil and gas investment in western Siberia

DATA: ENR

complicated deals that require layers of approval," says Robert Starr, head of the Central and Eastern European practice of Cole, Corette & Abrutyn, a Washington law firm.

Even with scaled-down expectations, Western companies face big problems. A deepening financial crisis and the liquidation of Soviet industrial ministries have called into question many of the deals spawned during *perestroika*'s golden years. Now, many must be renegotiated individually with the 15 former Soviet republics that have become independent countries. Financial guarantees won from the former Soviet government are null and void.

'THE KLONDIKE.' As they lurch toward their own versions of market economies, however, the 11 members of the Commonwealth of Independent States have yet to sort out such key issues as tax obligations, currency, and shareholders' rights in privatizing state enterprises. Until they do so, negotiations will drag and be hamstrung by a lack of guarantees for credit.

Teams of Western investment bankers and lawyers that have been scouring the former Soviet Union on recent reconnaissance missions warn that investors looking for opportunities had better be prepared to lose everything. Says Robert

A. K. Scallon, an East European director of Barclays Bank PLC: "It's the Klon-like. Those that go in will be the adventurous and the entrepreneurs."

Mindful of the high risks, companies such as Siemens, Pratt & Whitney, and General Electric are testing the waters cautiously by making contacts, expanding sales teams, and doing small deals.

In a mere six months, Houston's Pennzoil Co. bypassed Moscow's dying central bureaucracy and inked an agreement with a local Russian oil group for a smallish joint venture to develop oil and gas deposits in western Siberia. Amoco Corp., which had to cope with political turmoil in Azerbaijan, now has 60 professionals devoted full-time to such projects as one to pump oil from the Caspian Sea. Its other partners include Unocal International and McDermott International. Amoco is also competing against Exxon, Mobil Corp., and others for a \$17 billion oil project off the coast of Sakhalin, in the Russian Far East. A winner may be chosen by March.

RICKY DEALS. Getting financing for such projects won't be easy. Western sources complain that some officials, such as Sakhalin Governor Valentin Fyodorov, hold surprisingly naive views about financial risk. "We will find a consortium that will finance everything themselves," says Fyodorov. "They will take all the risk on themselves."

Reality is quite different. Foreign investors are worried about Vnesheconombank, the central foreign trade bank that provided all Soviet government guarantees for Western commercial bank financing. It has suspended all hard-currency operations and is nearly bankrupt.

Until Western credit agencies authorize successors to Vnesheconombank, big deals probably won't get done. "The problem is, Western agencies haven't given the green light [for credit] to anyone else," says Alexander Ustraykh, a Bankers Trust Co. vice-president.

Financial help may be coming from the West in a different form, too. Russia, Ukraine, Azerbaijan, and others are applying for membership in the International Monetary Fund, opening the possibility of loans to spur trade and stabilize the currency. In Russia, four foreign investment banks are bidding to become investment advisers to the Yeltsin government. Bear, Stearns & Co. is already advising the massive state-owned Volgo Auto Works on its planned privatization. Fiat officials say they expect to sign an agreement to buy about 30% of the auto company within about 60 days. Local entrepreneurs, meanwhile, are setting up new banking networks and several new Russian banks now have relationships with Swiss, French, and German banks.

There is even a chance that the American Trade Consortium can be revived if

a major oil project by Chevron can go forward, says James H. Giffen, who helped found the consortium. Chevron wants to produce oil in the giant Tenghiz oil field in an arid corner of Kazakhstan. But the company has been pressured by Soviet political chaos and because of its key role in the cumbersome consortium setup. Chevron's dollar revenues from oil exports would have provided the cash that other consortium members needed to repatriate profits in hard currency.

At first, Chevron dealt with the Kremlin while also negotiating with Kazakhstan. But after August's failed coup, Kazakhstan nationalized the oil field and stepped up charges that the deal signed by the Kremlin was too sweet for Chevron. Since then, Kazakh officials have hired British law firm Slaughter & May and J.P. Morgan & Co. to assess the

fairness of the project. Unless an agreement is reached soon, the Kazakhs will throw the Tenghiz oil field open to an international tender, warns Bolatkhon K. Taizhanov, the republic's first Deputy Minister for Foreign Economic Relations. "Chevron's demands are too high," Taizhanov says.

Now, however, the flap with Tenghiz is casting a shadow over other oil projects because Western companies have considered the Chevron deal a bellwether. That's why wise investors will likely avoid complicated deals on giant projects for the foreseeable future. The American Trade Consortium's experience is too fresh—and for companies such as Chevron, too painful.

By Rose Brady in Moscow and Peter Galuszka in New York, with Richard A. Melcher in London and David Greising in Chicago

EASTERN EUROPE

THE LESSONS RUSSIA CAN LEARN FROM EASTERN EUROPE

Free prices, lift trade restraints, and don't let the money supply explode

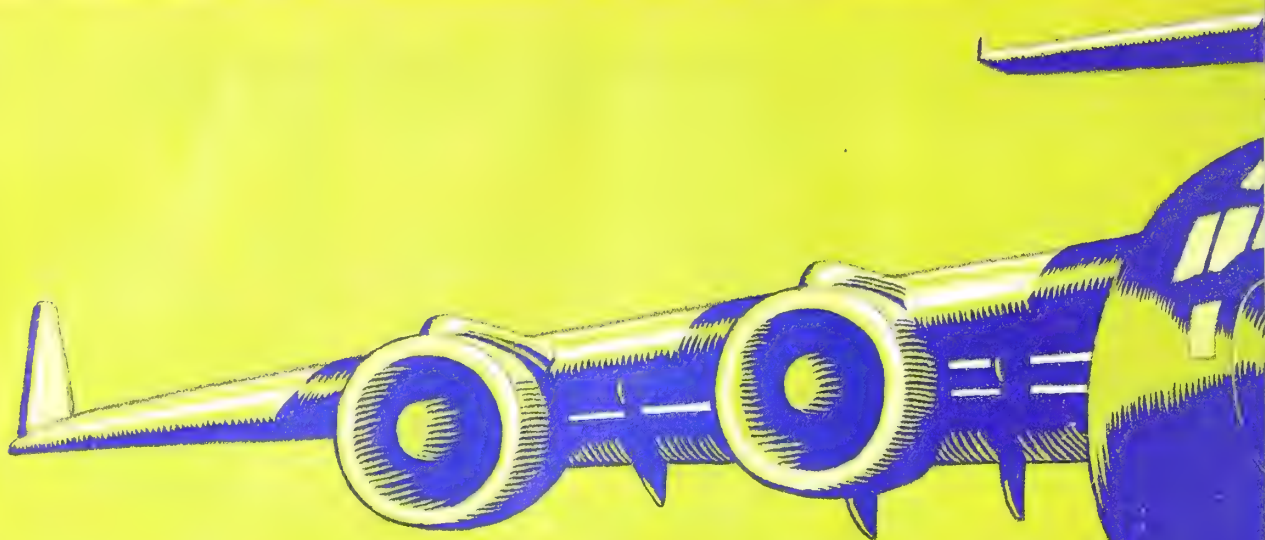


FOR HUNGARIANS, THE MARKETPLACE BECKONS

Russian President Boris N. Yeltsin has done it. He has launched his republic down the dangerous road to a market economy. While the trip terrifies many of his compatriots, Yeltsin won't be venturing completely into the unknown. There are some sketchy roadmaps. Poland began its own shock therapy two years ago, followed by Czechoslovakia in 1991. After decades of flirting with reform, Hungary has embarked on a less wrenching but equally far-reaching overhaul.

LAUNCHING THE COMMONWEALTH

A halfway house between East and West, Eastern Europe is a model of the trial-and-error transition that lies ahead for the former Soviet republics. After fits and starts, the Eastern Europeans look as if they're on the way to joining the Western club. Foreign investment is steadily rising. The private sectors are expanding, and everything from Swiss chocolate to raspberries is easy to find. But it has been costly. Those gains would have been impossible without the initial price re-



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THE OPEN ADVANTAGE.

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forms that cut real incomes 10% to 20%.

The former Soviet republics should be aware that the formula that provided the critical framework for reform in Eastern Europe was an overnight freeing of prices and lifting of trade restraints, while keeping a tight grip on money supply. As a result, many state enterprises foundered as competition flooded the domestic markets with long-denied goods. But an elite struggled to improve product quality and packaging, find Western partners, and boost exports. These survivors are now pumping substantial hard currency into the Polish and Hungarian economies.

There are, of course, differences between Russia and Eastern Europe. Russia has no tradition of market economy to look back on, as Eastern Europe does, and proportionally fewer skilled workers. But the potential to exploit raw materials such as oil and natural gas may compensate for other drawbacks in luring investors to Russia. "They have to put their wealth on the table," says Peter Danylow, an Eastern Europe expert at the German Industry Assn.

SLOW CHANGE. Foreign capital has been a key ingredient in the success of Eastern Europe's transition so far, and it is the best hope for the former Soviet republics. While freeing prices may eliminate food shortages and provide the foundation for change, the toughest job in scrapping a socialist economy is re-making industry. It's expensive, and big bucks are hard to find these days. The sale of such huge companies as Czechoslovakia's Skoda auto works to Volkswagen and Hungary's Tungsram to General Electric provided jobs and retraining for thousands. The \$3.4 billion in Western investment that Poland, Hungary, and Czechoslovakia received during the past two years is a trickle compared with the \$240 billion in government funds alone spent on eastern Germany, but even that small amount made a huge difference.

Such foreign help has been crucial be-

cause reform programs have progressed much slower than most hoped. Privatization of large state companies has been particularly sluggish. Thousands of small retail shops have been sold, creating millions of jobs, but the budding private sector still cannot counterbalance ailing state industry. Newly created commercial banks lack experienced personnel, and stock markets that opened with great fanfare have no liquidity. At the same time, budget deficits are exploding as recessions slash revenues.

Even so, most economists think East-

ailing state companies. "We are at the turning point now," says Laszlo Lengyel, president of Financial Research Ltd. in Budapest.

While many Hungarians work two or three jobs to preserve their living standards, the first entrepreneur millionaires are cruising around in chauffeur-driven Rolls-Royces. Business publications abound, and glossy magazines cater to a new class of wealthy individuals.

Although Poland and Czechoslovakia are moving more slowly than Hungary, even they are likely to bring their econo-

mies near Western standards by the late 1990s. But, angered by a sharp and prolonged recession, Poles in elections last October forced a government out of office for the second time since 1989. The job of keeping reform on track now falls to a shaky coalition.

TURNING POINT. Economists are urging the Polish government to use the growing public pressure for action to help launch a large-scale privatization campaign, which has been waylaid several times already. On Jan. 6, Polish officials announced plans to create a privatization agency similar to the German Treuhandanstalt. But a lengthy review of ownership rights will delay large-scale sell-offs.

Although Czechoslovakia boasts the biggest Western investments, it still lags behind both Hungary and Poland. Having started reforms later, the Czechs must weather at least one more recession year. It is counting on a complex

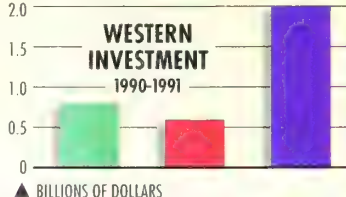
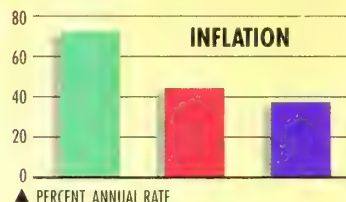
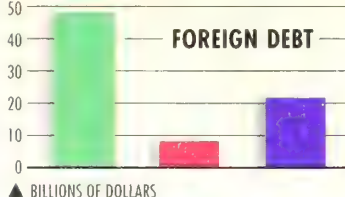
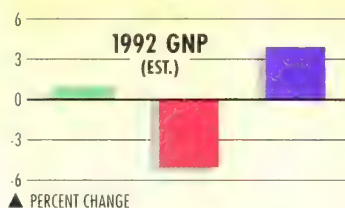
voucher giveaway scheme, which will start distributing the first 2,400 companies in March, to overhaul industry.

If the former Soviet republics follow a path similar to that of Eastern Europe, they face two to three years of recession and a 20% to 25% fall in output. They won't have the euphoria of getting rid of the Soviet occupiers to soothe the pain. But if the reform efforts succeed, they will have plenty of champagne for the celebration.

By Gail E. Schares in Bonn

A SCORECARD ON REFORM IN EASTERN EUROPE

After two years of reform, Hungary has the most stable government. The Czechs face secessionist tensions in Slovakia and elections in June, while the weak Polish coalition may risk higher inflation to stimulate growth. All three have freed most prices and have at least partial currency convertibility for business and individuals. And all three have quickly privatized most small shops but had difficulty with the large state-owned enterprises



DATA: DEUTSCHE BANK, PLANECON INC., BW

ern Europe may be through the worst of the transition period. Hungary, now the front-runner in economic reform and the most politically stable, clearly has the best prospects (table). It will likely climb out of recession this year, with estimates of gross national product growth ranging up to 4%. New banking and accounting laws that just took effect in Hungary should further energize the private sector. It may even be able to afford to cut communist-style social programs and dispose of large numbers of

FROM BUSH, A RELUCTANT TURNAROUND ON AID

He's lobbying for a coalition effort to help the former Soviet republics

After staunchly resisting European pleas for more aid to the crumbling Soviet Union all last year, the Bush Administration turned on a kopeck in mid-December. Now, it's suddenly pulling out all stops. By hosting an international aid pow-wow Jan. 22-23 in Washington, the Administration hopes to encourage reformers in the former Soviet republics as it casts an international net for aid.

Even though the U.S. continued to hope—long after its allies had given it up—that the Soviet Union would hang together, the crumbling of the nation helped weaken Washington's opposition to more aid. Administration officials don't particularly like Russian President Boris Yeltsin. But they admire the radical moves he has made to resuscitate the Russian economy—efforts that Mikhail Gorbachev never managed. Swallowing hard, the Administration is stepping up its support for reform in Russia and other states in the new commonwealth.

Further evidence of the policy shift: The U.S. now backs full membership in the International Monetary Fund and World Bank for Russia and five other republics. Membership will open the door to billions of dollars in loans. Says an enthusiastic Robert S. Strauss, U.S. ambassador to Moscow: "There's no place we get a bigger bang for the buck, after spending 4 or 5 trillion dollars to reach the stage we've reached now."

PARTNERSHIP. By giving aid a global gloss reminiscent of the Desert Shield coalition, Bush hopes to blunt the attacks of Republican and Democratic "America Firsters" and ease the doubts of recession-strapped Americans. "If the Administration can establish that the burden is being shared, it will have political cover to go back and get more aid," says Robert D. Hormats, vice-chair-

man of Goldman Sachs International.

The new U.S. interest in aid is playing to mixed reviews in Europe. French President François Mitterrand, miffed over U.S. rebuffs of his earlier proposals for more aid and a nuclear weapons conference, calls the Washington meeting "superfluous." Sniffs Mitterrand: "There are already plenty of conferences on the subject, and France and the European Community already

LAUNCHING THE COMMONWEALTH

HOW THE U.S. MIGHT HELP THE COMMONWEALTH

Pay up at the IMF The International Monetary Fund wants a \$60 billion capital increase, but the U.S. has not paid its \$12 billion share. The new money will give the fund the means to help commonwealth states

Donate to a ruble stabilization fund The U.S. could contribute to a dollar-backed stabilization fund of \$5 billion to \$15 billion that's designed to head off hyperinflation

Offer massive technical assistance Teams of specialists from the U.S. could be sent in to help draft legislation, set up tax collection systems, overhaul food distribution networks

Ease export controls U.S. curbs on exports of computers, fiber optics, and telecommunications gear could be eased to help modernize communications

DATA: BW

aid (table). "We need to make sure some people don't fall through the cracks and that there's no duplication of effort," says one State Dept. official. A parallel meeting of charitable groups, organized hastily at State's behest, will convene to drum up more private support.

Despite disclaimers that the gathering won't be a "pledging conference," Administration planners and private economists hope it will nudge some participants to get out their checkbooks. "The time has come to be thinking of a substantial stabilization fund to prop up the ruble," says John Williamson of the Institute for International Economics, a Washington think tank. He estimates \$5 billion to \$10 billion is needed.

'MODEST AMOUNT.' Many on Capitol Hill want to see more technical assistance from the U.S. Last year, with no backing from the White House, Congress ap-

propriated \$500 million to help dismantle Soviet nuclear weapons and to transport food and medical supplies. The \$100 million more in technical aid that the Administration has proposed is "a very, very modest amount," says Representative Lee Hamilton (D-Ind.).

Even with the cover of an international conference, the U.S. will seek to avoid sending large sums of cash, favoring instead the more palatable form of food, medical, and technical help. "When push comes to shove, the Administration will find more money, but they will do this in a fairly subterranean way," predicts Gregory F. Trevorton of the Council on Foreign Relations in New York.

Ultimately, Bush may have to abandon this stealthy approach. The Administration already faces an uphill fight to win congressional approval of a \$12 billion capital infusion for the IMF, and the needs of the former Soviet republics could force it to ask for even more. If the Russian economy deteriorates further, and Yeltsin's government falters, the West will face new pressure to prop up the nascent democracies with bigger loans and cash grants. But responding to those pressures could require far more leadership than Bush is willing to demonstrate—especially in an election year.

By Amy Borrus, with Patricia Krantz, in Washington and Rose Brady in Moscow



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THE OTHER WAR AGAINST VIETNAM IS ALMOST OVER

As a captain in the U.S. Army Special Forces during the Vietnam War, Warren Williams had the job of wiping out Communists. But when the former Green Beret, now a business consultant, returned to Vietnam in December, he got red-carpet treatment. The leader of a U.S. trade delegation, Williams was hosted by five government ministers, the head of the State Planning Committee, and a state bank official, who said: "I'm sitting here with several licenses in my pocket, and some of those are reserved for American banks."

This mission, the first allowed by Washington since the war, is just one sign that the 17-year campaign to shut Vietnam out of the world economy is crumbling. A surge of Asian and European investment is helping end Vietnam's isolation. Vietnam also is winning over scores of U.S. corporations that fear being locked out of what could be the next Asian dynamo. Responding to pressure, the White House is quietly letting Corporate America go ahead with preparations to do business. "The momentum is building for a change," says Steven Baker, a senior Citibank executive in Asia.

This month, the Treasury Dept. is letting Citi launch the first legal funds-transfer service for Vietnamese-Americans sending money home. Treasury has also lifted a ban on group travel to Vietnam and has raised the \$100-a-day spending limit for Americans. "They're trying to make the rules so we don't get shut out," says a U.S. oil-industry source.

SET TO BOOM. Optimists in the State Dept. and Congress think Bush this spring will scrap the embargo, the centerpiece of the anti-Vietnam effort. They argue that Vietnam has already met conditions laid down by Secretary of State James A. Baker III. Hanoi has withdrawn from Cambodia, and American diplomats say Hanoi is cooperating fully in the impossible task of ac-

counting for 2,273 G.I.'s still listed as missing in action. But many observers doubt Bush will move before the November election—because of the emotional MIA issue and opposition by National Security Council hawks. On his Asia swing, Bush ended the Cambodian embargo but ignored Vietnam.

American business is telling the Administration it can't afford to wait. After five years of sweeping reforms, Vietnam looks set to boom. Last year, Hong Kong and Taiwanese makers of garments and toys, lured by the highly literate, \$1-a-day work force, led foreign investors, who pumped in \$1 billion. Big Japanese companies had held back to avoid upset-

ting Washington, but giant Japanese trading houses such as Mitsui & Co. are now cutting deals.

Coveted oil, shipping, hotel, and infrastructure franchises are already being doled out to U.S. competitors. Hanoi officials say they are saving some offshore oil leases for such companies as Exxon, Mobil, and Chevron, which made major finds in the 1970s. But it is granting concessions to rivals British Petroleum Co. and Royal Dutch/Shell. American Telephone & Telegraph Co. recently missed out on a \$260 million phone contract awarded to Australia's OTC Ltd. Shipping giant Sea-Land Service Inc. has been eyeing Vietnam's plans to develop deep-water ports, but it recently lost a deal to a Hong Kong outfit. "If we can't negotiate soon, the opportunities may be gone," says Peter R. Moe, Sea-Land's Southeast Asia director.

Even Washington's control over international lending agencies is fading. Prodded by Japan, the Asian Development Bank is preparing to renew its assistance. One wonders how long the U.S. can hold out.

By Pete Engardio, with Laurence Zuckerman, in Hong Kong and Amy Borrus in Washington



HANOI TRADE: BUSH MAY SOON SCRAP THE U.S. EMBARGO

GLOBAL WRAPUP

MEXICO

Mexican Finance Secretary Pedro Aspe is emerging as an early front-runner in the race to succeed President Carlos Salinas de Gortari in 1994. On Jan. 7, Salinas disclosed plans to merge the Budget & Planning Secretariat, which he used to head, with Aspe's Finance Secretariat. The new supersecretariat makes Aspe a virtual economic czar and gives him a strong boost toward the ruling Institutional Revolutionary Party's presidential nomination, to be announced next year.

The 41-year-old Aspe holds a doctorate in economics from Massachusetts Institute of Technology and is consid-

ered the architect of Mexico's successful privatization program. But Aspe lacks strong grass-roots connections. Another leading candidate is Commerce Secretary Jaime Serra. His prospects, however, are linked to his success in tying down a free-trade deal with Washington. Much jousting remains. Another popular Finance Secretary, Jesús Silva Herzog, was the early front-runner in the last campaign—until little-known Salinas outfoxed him.

FRANCE

In the jockeying to become the next French President, ex-Prime Minister Michel Rocard is leaping ahead of his chief rival for the Socialist nomina-

tion, European Commission President Jacques Delors. That's because of a back-room deal to replace the party's resigning boss, Pierre Mauroy. A Delors backer was expected to get the job. But Rocard has apparently won it for a key former rival, Laurent Fabius, in exchange for Fabius' support in the presidential race. Some party brass now call Rocard their "virtual candidate" to succeed Socialist President François Mitterrand, who may depart before his term ends in 1995. Recession—plus weariness with Mitterrand—is boosting the fortunes of the top rightist candidates: Paris Mayor Jacques Chirac and former President Valéry Giscard d'Estaing.

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TWIN ENGINES

CAN BOB ALLEN BLEND COMPUTERS AND TELECOMMUNICATIONS AT AT&T?

Thirteen years ago this spring, an ambitious, buttoned-down vice-president named Robert E. Allen was given an urgent task by American Telephone & Telegraph Co. Congress and the Justice Dept. were threatening to dismember the world's wealthiest company to keep it from squelching competition. Allen had 30 days to prepare a plan that could assuage the slicers and dicers and help save the Bell System. On June 28, 1979, he issued his task force's conclusion: build safeguards against monopolistic behavior, but fight to preserve Ma Bell's unique, two-in-one combination of communications services and manufacturing. When AT&T settled its antitrust suit on Jan. 8, 1982, it reluctantly agreed to spin off the local phone companies that accounted for 77% of its assets. But, as Allen and others had advised, it kept its manufacturing intact.



AT&T'S NETWORK OPERATIONS CENTER IN REDMINSTER, N. J.

COMMUNICATIONS SERVICES

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1991 REVENUE	\$20.06 billion
NET INCOME	\$2.76 billion
NET PROFIT MARGIN	13.8%

FOR BETTER, FOR WORSE

AT&T makes more money from communications services than from products and systems. Overall, the company roughly breaks even on \$5.77 billion from other businesses, such as credit cards and equipment rentals

Today, Allen the up-and-comer has become Allen the boss. In nearly four years as chairman and CEO, he has decentralized management, fended off competitors in long distance, slashed costs, increased profits, and earned the respect of Wall Street. Unit by unit, the company is improving. But Allen isn't satisfied, because he still hasn't realized the vision of synergy between communications services and hardware that he and others pictured 13 years ago.

ONE ROOF. Allen is convinced that, even after years of frustrated efforts, AT&T can be a global information powerhouse by putting together a set of resources that no other company can match: a sophisticated worldwide network to carry voice and data, plus the equipment to run it, plus the devices that hook up to it, from Mickey Mouse phones to laptop computers. Put them under one roof, the

Allen theory goes, and you can build complex, networked information systems that surpass anything available from a computer manufacturer, long-distance company, or phone-switch maker. In short, says Allen, AT&T wants "to create global computer networks as easy to use, as efficient, and as accessible as the phone network itself." And that should create lots more traffic for AT&T.

Until recently, that vision of synergy had been about as tangible as a slide show in a darkened corporate boardroom. A key problem: Despite pouring billions of dollars into a homegrown computer business, AT&T never made a big dent in that market. And without a significant presence in computers, the company could never achieve the synergy between communications networks and equipment that the strategy depended on. Indeed, about the only good news

in the AT&T breakup had been the go-ahead to enter the computer business.

By 1990, after six years of losses, it had become clear that the AT&T computer business probably would never make it on its own. So Allen set out to buy what he could not create. Last year, after a five-month struggle, AT&T acquired NCR Corp. for a hefty \$7.4 billion to become the nation's fifth-biggest computer manufacturer (page 63). Finally, it appears, all the pieces are in place.

GIRDLING THE GLOBE. Now, the question is: Can Bob Allen at long last make his dream come true? Does the concept of synergy still make sense? Or, by trying to do too much, will he diffuse the efforts of AT&T's people and leave it vulnerable to more sharply focused competitors? AT&T's \$20 billion service business is doing fine on its own, and some analysts say that the company ought to give



PHONE SYSTEM
ASSEMBLY AT AT&T
MANUFACTURING
IN DENVER

91
TOTAL
\$1.07 billion
Change from 1990
Up 3.3%

INCOME
\$33 billion
Up 7.4%

PROFIT MARGIN
%
Up from 7.1%

Consolidates NCR into AT&T's results of 1990 and 1991. Excludes write-offs and extraordinary items

PRODUCTS AND SYSTEMS

Includes computers, network switches and transmission gear, office phone systems, microelectronics, telephones, and answering machines

1991 REVENUE

\$19.24 billion

NET INCOME

\$570 million

NET PROFIT MARGIN

3.0%

Cover Story

up on the dream and sell off some of its less profitable equipment-making businesses (table, page 56).

Not likely. If anything, Allen's ambitions for AT&T in the information technology business have expanded—to planetary proportions. At a trade show in Geneva last year, he told reporters that he hopes foreign business will make up half of AT&T's revenue by the year 2000, when he is set to retire. The figure now is 23%—thanks in part to the NCR acquisition, which has given the company an instant boost in overseas computer markets, including Japan. The goal, AT&T executives say, is to be a one-stop shop for the equipment and networks that corporations need to conduct business electronically around the globe. Avers Allen: "There is no other company like AT&T. We are unique, and therefore we have a unique opportunity."

Allen's own opportunity came with the breakup of the Bell System. After his stint at headquarters in the late 1970s, the meticulous and soft-spoken Midwesterner became president of Chesapeake & Potomac Telephone Cos., which became part of Bell Atlantic Corp. at AT&T's divestiture in 1984. Just before that, AT&T Chairman Charles L. Brown saw something special in Allen and brought him back as chief financial officer.

Those were wild days at AT&T. News articles predicted a "clash of the titans" as AT&T and IBM attacked each other's markets. But IBM failed in telecommunications. And it quickly became apparent that AT&T—which used to brag that its phone network was really the world's largest computer—was no threat to Big Blue. By 1985, the AT&T Information Systems business, which made computers and other equipment, was floundering. Brown called in Allen, who quickly gained a reputation as a stern cost-cutter, slashing 24,000 jobs (box). He was named AT&T president in 1986 and chairman in April, 1988, following the sudden death of James E. Olson from cancer.

PRETTY PENNY. Now, with NCR in hand, Allen is once more focusing on his broader ambition: to make one and one equal three. But for that kind of productive addition to work, all the components must be healthy. That's why in 1988 Allen began reorganizing AT&T into some 20 separate business units and gave their presidents profit-and-loss responsibility. Under Allen, return on equity excluding extraordinary items climbed from 13.5% in the first quarter of 1988 to 18.8% last

September. Three years after the AT&T reorganization, IBM Chairman John F. Akers is hoping to hit such profit targets with a similar decentralization plan.

Not surprisingly, the biggest success has been AT&T Communications Services. Its highly profitable businesses range from customized discount calling plans for big companies to Reach Out America for consumers, from toll-free 800 numbers to AT&T EasyLink Services, the nation's biggest electronic-mail carrier.

Headed by Group Executive Victor A. Pelson, the long-distance business has all but stopped losing market share to the likes of MCI Communications Corp. After plunging from 85% in 1984, AT&T's share is holding at around 66%, thanks to aggressive marketing and volume-purchase plans for big customers. At the same time, it has avoided across-the-board pricing cuts that would have pinched profits: Every penny off the average rate costs AT&T more than \$1 billion in annual revenue. Indeed, AT&T has been able to raise some prices while cut-

ting others. Says Pelson: "Pricing changes are much more surgical now."

The equipment-making groups, on the other hand, continue to struggle. The \$2 billion Consumer Products unit is one of the few bright spots, thanks in part to moving most of its manufacturing to Singapore, Thailand, and Mexico. In less than five years, it went from a money-loser to a profit contributor. But overall, equipment manufacturing units are, at best, barely profitable, say analysts.

DOUBLE BYPASS. Skeptics say the units are still losing money. If, for example, product businesses are made to shoulder roughly half the cost of corporate overhead and research and development—not a far-fetched assumption—the company probably lost some \$3 billion in product sales in 1990, estimates A. Michael Noll, a former AT&T marketing executive. "This cash cow called long distance is supporting an incredibly inefficient manufacturing company," says Noll, now a professor at the Annenberg School for Communication at the

HOW BOB ALLEN IS REWIRING AT&T MANAGEMENT

Last year's contest for control of computer maker NCR Corp. was a study in vastly different executive styles. NCR Chairman Charles E. Exley Jr. regaled reporters with barbed quips about American Telephone & Telegraph Co.'s "failed" computer strategy. AT&T's attempt to get into computers, he said, was like an electric utility going into the Mixmaster business. By contrast, AT&T Chairman Robert E. Allen appeared flat-footed and ill at ease. About the only thing they seemed to have in common was a love of cigars. "Maybe if we'd had a cigar," Allen once sighed, "we'd have found some common ground." Indeed, at times it was hard to tell who was attacking whom.

But look who took the prize. After a five-month battle, Allen's unswerving commitment—and \$7.4 billion in AT&T stock—won the day.

WABASH CANNONBALL. Don't underestimate Allen. His ramrod-straight style may sometimes get in his way, but it's matched by a seriousness of purpose that has impressed everyone from Hale Irwin, his pro-am golfing partner, to current NCR Chairman Gilbert P. Williamson. "He's a thoughtful person—unemotional, clinical," says Williamson. "That's pretty good."

Allen's character was forged in Indiana, where he worked on a farm and a railroad gang and played end for the Wabash College football team before going to work for Indiana Bell in 1957 as a traffic engineer. He paid his dues with stints at Bell of Pennsylvania, Illinois Bell, and



University of Southern California.

In recent years, intense global competition has curbed profits in major AT&T product categories such as switches for phone companies and businesses. Last year, AT&T hired outsider Jerre L. Stead from electrical-gear maker Square D Co. to turn around the office-phone systems business. And it took a huge \$4 billion charge in the third quarter for consolidation, mainly in equipment businesses, including axing much of the old AT&T computer operation.

At the same time, the company is being challenged in markets it once owned. Last November, Ameritech, the Chicago-based Baby Bell, gave it a puny 3% of the new capacity in a \$1.05 billion switch order. The rest went to Northern Telecom Ltd. and newcomer Siemens Strom-

berg-Carlson. That hurt. A month later, the Federal Aviation Administration picked Harris Corp. over AT&T to build a \$1.7 billion voice-communications system for air-traffic controllers (page 31).

So the pressure is mounting to make Allen's vision for AT&T finally come alive. But with NCR, he says, the stage is set. Take electronic transactions, such as

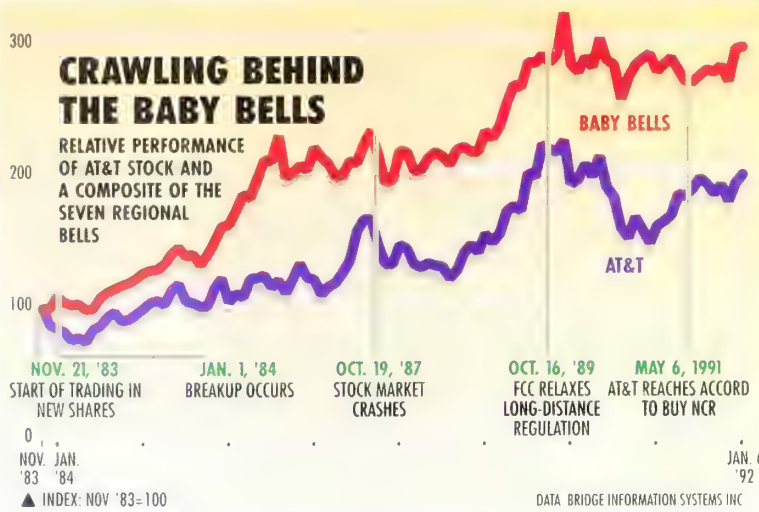
old distinctions between products and services blur, Allen's team believes. "Is a cash machine, or point-of-sale terminal, a product or a service?" asks Richard S. Bodman, senior vice-president for corporate strategy and development. The answer: Both, of course.

That's where the combination with NCR is supposed to pay off. NCR Chair-

man Gilbert P. Williamson says that his people and AT&T's will be able to pull off complex projects that they could not have managed through a looser affiliation. "If you really want to do something big," he says, "it gets very difficult to do it on an arm's-length basis." Already, NCR is working on an AT&T project for after-hours trading at the New York Mercantile Exchange.

GUT FEELING. If AT&T can do it well, its services-and-equipment strategy looks promising—even to Japan's giant Nippon Telegraph & Telephone Corp. The \$50 billion domestic carrier has world-class R&D labs, but it's prohibited from manufacturing. It buys most of its equipment from suppliers with which it has close ties, such as Fujitsu, Hitachi, NEC, and OKI. But maintaining and upgrading that equipment can be a strain on the manufacturers, especially for the more esoteric stuff. "As the market grows ever more competitive, there is no guarantee that our suppliers will always provide the same level of support," says Yusuke Kume, an executive manager in NTT's International Affairs Dept. "This is where AT&T may have an advantage."

Still, neither Allen nor anybody else at AT&T has been able to spell out precisely how that advantage will translate into revenue growth and earnings. Indeed, the stocks of the seven Baby Bell offspring have outperformed AT&T shares, partly because those companies have been banned from entering the less prof-



ALLEN WANTS "MORE AMBIGUITY" IN THE DECISION PROCESS

Chesapeake & Potomac Telephone Cos. before reaching corporate headquarters for good in 1983. The father of five is married to his sweetheart from college days. Allen, 56, keeps fit with morning jogs, and about his only vice—besides the cigar—is his addiction to golf, which he plays with a handicap of 10.

A career in the rule-bound Bell System hardly prepared Allen to lead AT&T through the jungles of deregulation and open competition. He admits to a few months of floundering upon becoming chairman in April, 1988. But soon, Allen hit on a management style that suited his temperament, one that's more collegial than inspirational. Rather than trying to rule AT&T from above, he has split the company into some 20 lines of business. To illustrate the decentralization, he turned the organization chart upside down so that he and other corporate officers "support" the business-unit presidents.

Last year, Allen decentralized even further by handing over day-to-day decisions to a five-person Operations Committee—which he's not on. "It's not a neat, clean structure," Allen says. "There's a conscious attempt to put more ambiguity in the process. Some people are comfortable with that, and some people aren't."

Yet Allen is hardly indecisive, as he proved in the NCR affair. By going over Exley's head, Allen risked triggering mass resignations and throwing both companies off track. But he took a calculated gamble—and won. Aside from Exley, hardly any top NCR people have resigned. So far, anyway, the merger has gone smoothly (page 63), as Allen predicted it would.

Stiff he may be. But his serious, straight-ahead style could be just what's needed. Flair and showmanship won't keep this complex corporate ship on its long-term course.

By Peter Coy in Basking Ridge, N.J.

Open systems.



Everyone agrees they're

No one's debating whether open systems are a good idea, but you'll hear plenty of discussion about what open systems *are*.

Some insist, for example, that an open system is a UNIX® system. But to others it's whatever it takes to get their different operating systems, networking protocols and databases working as one, and the sooner the better.

That's why IBM views open systems so openly. To us, they begin less with particular technologies and more with the needs of your business.

The real goal is to liberate information that's trapped around your company, so more of your people can use it more easily, and to open commu-



Good, but not everyone agrees how to get there.

relations with customers and suppliers, who undoubtedly planned their systems without thinking about yours.

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So the paths to open systems will vary, but there's one thing that won't—consistent industry standards. IBM is fully committed to open systems, so we're equally fervent about standards.

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Cover Story



The long-distance business, headed by Victor Pelson, has all but stopped losing market share to the likes of MCI

itable equipment-making business (chart, page 59). "This whole concept of synergy is based on experience and gut feeling and wisdom, but not necessarily on brute-force calculation of the numbers," says Richard B. Emmerson, a Del Mar (Calif.) consultant who has advised AT&T on how to get a better handle on its internal accounting.

A new deal in Italy exemplifies the kind of successful collaboration between business units that Allen hopes will occur throughout the company. AT&T is supplying SIP, the domestic phone company, with computer-based "intelligent networks" that will deliver the Italian equivalents of 800 and 900 numbers. While Network Systems will supply the gear, its communications people will show the Italians how to use it. Says Claudio Carrelli, SIP's head of research and development: "All switchmakers have the same technology, but AT&T has the major operating experience. From that point of view, AT&T is far ahead of everyone else."

PARENT VS. KIDS. Another product born of corporate synergy is the Smart Phone, which customers should begin to see later this year. It has a touch-sensitive screen with buttons that can be programmed to connect to a host computer and automatically order a pizza, transfer funds into a checking account, pay an electric bill, or call Aunt Virginia. The phone comes from the Consumer Products unit of AT&T; the brains that carry out the transactions in the network were devised by Network Systems and Bell Laboratories.

But for every example of the benefits of collaboration, it seems there's another showing how AT&T could stab itself in the foot with its two-pronged strategy.

As it pushes overseas, for example, AT&T phone-service executives are lobbying hard to get governments and state-owned phone companies to pare fees that increase the price of overseas calling. But at the same time, executives from other parts of the company are trying to get the same carriers to buy AT&T equipment. The danger: "They might say, 'Screw you, I'm not going to give you any more business unless you back off on rates,'" says Michael C. Craft, AT&T's Gulf Region managing director. "It's a dilemma."

The service-and-equipment combination also causes conflict at home. AT&T's factories were built in the Bell System era to provide equipment to a captive market of local Bells. Now, increasingly, AT&T competes with its babies—for ex-

ample, by helping corporations set up direct links to the long-distance network, bypassing the local phone company. That could throw business to rival phone-switch makers that don't compete in phone services, such as Northern Telecom. "We've gotten kudos on that from our customers," says Northern Chairman Paul G. Stern. Alienating the Baby Bells could be a real problem: They account for 80% of the \$7.8 billion annual revenue of AT&T Network Systems. "There are complexities to being unique," says Carleton S. Fiorina, Network Systems vice-president for strategy and market development. "They require a lot of finesse. That finesse is what we've been working to develop."

BAD OLD DAYS. Allen understands that trying too hard for synergy within AT&T could be a step backward—to the bad old days when the company was slowed down by a not-invented-here syndrome. That's why business units are free to buy from outside when it makes sense. The Consumer Products unit did that for the VideoPhone 2500, introduced on Jan. 6. This home phone, incorporating a small screen and camera for visual communications, uses software from Compression Labs Inc. that squeezes moving images onto standard phone lines—even though Bell Labs has been working in the field for 30 years.

One thing Allen doesn't want to do in pursuing the global-infotech vision thing is lose focus on AT&T's crown jewel: the long-distance network. Most of the time, it works impeccably. The day after Thanksgiving, for example, AT&T says it carried a record 157.8 million calls, and all but 211 went through on the first try.

But because new technology such as fiber optics concentrates more traffic in

Preventing competition with the Baby Bells on the service side from hurting equipment sales will require finesse, says Network Systems Vice-President Carleton Fiorina



fewer switches and circuits, network glitches can have mind-boggling repercussions. Between software bugs and human errors, AT&T's network has suffered three major failures in the past two years. The most recent, last September, severed an air-traffic control network, snarling flight plans from coast to coast. Among the passengers caught aloft was Alfred C. Sikes, chairman of the Federal Communications Commission. The incident stunned Allen: "I can hardly remember anything in my career that was quite as painful to me personally," he says.

Still, Allen is keeping his eye on the future—even as he tries to boost current businesses. He has produced a leaner and meaner company than the one he inherited. But he knows that cutting costs goes only so far. AT&T doubled earnings—from \$1.37 billion in 1984 to \$2.74 billion in 1990—mainly by slashing. But revenue over that period rose just 12%, from \$33.2 billion to \$37.3 billion. Discounting the bulge from NCR, the slow growth continued last year.

To make it in the 21st century, Allen knows, AT&T will need to create revenue from entirely new products and services.

Some can scarcely be imagined today—such as picture-perfect visual communications, phone numbers that stay with you for life, and networked computers that act as omniscient assistants.

Allen remains as convinced as he was 13 years ago that such a future depends on keeping AT&T strong in both products and services. By making AT&T's equipment businesses more efficient and buying NCR to fix his computer division, he is putting the company on track to reach its ambitious goals at last.

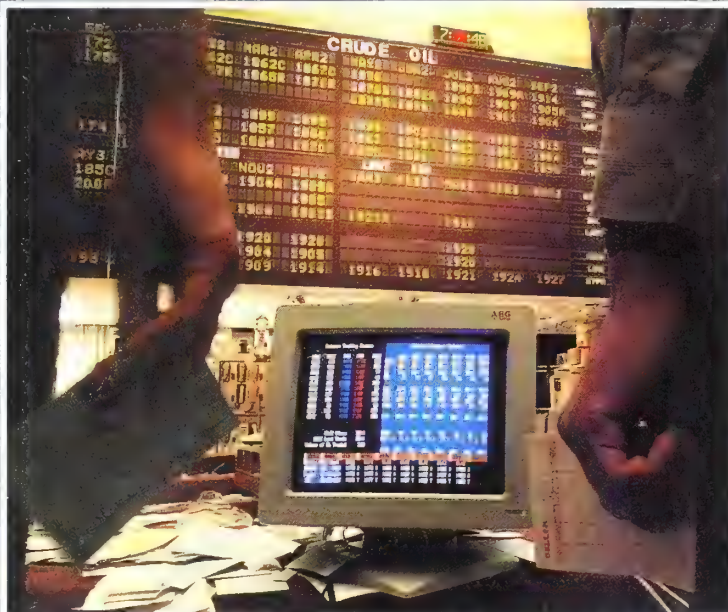
By Peter Coy in Basking Ridge, N. J., with bureau reports

AT&T AND NCR: SO FAR, A SWEET DUET

While a marketing executive at NCR Corp. in the 1980s, Gilbert P. Williamson learned an important lesson in cross-cultural business dealings. Japanese colleagues in Tokyo spent an unusual amount of time scrutinizing his American habits and figures of speech. "It drives you nuts," says Williamson, now chairman and CEO of NCR and a director of parent American Telephone & Telegraph Co. But once "they all understood things and the debates were over," he claims, the Japanese would act "in a flash."

Today, Williamson is drawing on that experience as NCR and AT&T try to make their 1991 merger work. Early on, for instance, he discovered that each company meant something quite different by "business unit." NCR had hundreds of such units, while AT&T had about 20. So when NCR executives nonchalantly discussed creating and dismantling units at the drop of a hat, their AT&T counterparts "looked at us like we were crazy," says Williamson. Now, each side knows better: "You have to immerse yourself in each other's organizations to really begin communicating," the 30-year NCR veteran says.

SMOTHER LOVE? Immerse yourself, but don't lose yourself: That's the challenge. Given the poor record of computer company mergers, there's the risk that AT&T might smother NCR's culture. Indeed, AT&T immediately changed the 108-year-old meaning of NCR from National Cash Register to AT&T's Networked Computing Resource. But NCR managers have had free rein, even deciding which of



AT&T AND NCR'S SYSTEM IS A HIT AT NEW YORK'S MERCANTILE EXCHANGE

positions at NCR. The most visible is William O'Shea, a marketing executive at AT&T, who now runs NCR's Network Products Group.

But the main test will be over how well the companies can collaborate to create the profitable synergies AT&T wants. They claim early success at the New York Mercantile Exchange, where AT&T won a contract for a network of computers for an after-hours trading system. NCR will install and maintain the system, and its computers may be used, too. The goal shared by the companies, says O'Shea, is to operate "in a way that will make it hard for people to understand that we

even had a merger."

Still, nagging questions linger. How will the acquisition of mostly nonunion NCR affect AT&T's relations with the powerful Communications Workers of America? Union officials say a strike is possible against AT&T if NCR management continues opposing CWA's organizing drive at the subsidiary. Most important, though: When will AT&T prove in dollars that it did right in paying more than twice NCR's pre-takeover market value of \$3.22 billion for a middling computer company? During the takeover, Chairman Charles E. Exley Jr. painted rosy projections for NCR for the 1990s. But Williamson says the weak economy and delays in a new mainframe have kept NCR from reaching even its 1991 goals. It's going to take more than a common vocabulary, it seems, to make this an enduring success.

For the most part, insiders say, it's business as usual at NCR. Only a few AT&T executives have been placed in top

positions at NCR. The most visible is William O'Shea, a marketing executive at AT&T, who now runs NCR's Network Products Group.

But the main test will be over how well the companies can collaborate to create the profitable synergies AT&T wants. They claim early success at the New York Mercantile Exchange, where AT&T won a contract for a network of computers for an after-hours trading system. NCR will install and maintain the system, and its computers may be used, too. The goal shared by the companies, says O'Shea, is to operate "in a way that will make it hard for people to understand that we

By John W. Verity and Peter Coy in New York

NEW ENGINE, NEW TRANSMISSION AND TO THINK MOST PEOPLE

On September 1, 1991, the presses at *Car and Driver* rolled and declared the Nissan® Maxima® SE the "Best Import Sports Sedan under \$25,000."

That night the engineers at Nissan quietly celebrated.

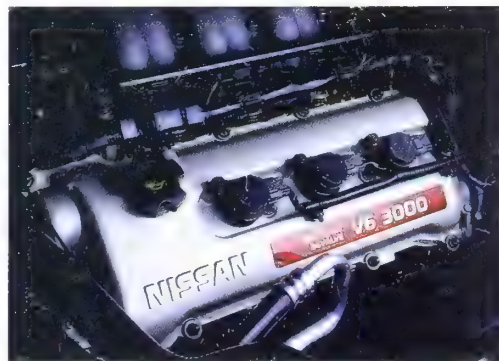
And took pleasure in the knowledge that the press hadn't, well, seen anything yet. For that same month the new 1992 Maxima was launched. A car our engineers had completely reexamined, revamped, and retooled, literally from the ground up.

One glance at the 1992 engine and you immediately detect a perfectionist mentality bordering on the obsessive. For there lies a new 3.0-liter, 24-valve DOHC V6 multi-point, fuel-injected variable valve timed engine.



The new 1992 Maxima SE shown in Super Black with optional ABS brakes, driver's side airbag and four-speed automatic transmission

Like our legendary Z, the Maxima SE's new 3.0-liter, 190 hp 24-valve DOHC V6 engine features a variable-induction dual plenum system on the 5-speed which utilizes an intermediate valve to regulate air intake flow for better performance at low to mid-range RPMs



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LIKED IT THE WAY IT WAS.



whichever front wheel has greater traction. So both stability and your self-composure are never lost.

And a remarkable revamped 4-wheel independent suspension system allows you to negotiate curves without compromising responsiveness or performance.

As a result, the 0-60 time has been reduced by more than a second to a seat-pushing 6.7 seconds*. And horsepower has surged to an adrenalin-pumping 190. Giving new meaning to the term, 4-Door Sports Car.™

Of course, in our engineers' minds, a totally new engine dictated equally radical changes to the transmission.†

A new front Viscous Limited Slip Differential transfers additional power to

Some things on the Maxima, however, take years to appreciate. Because over a two year period, the SE retains 70% of its value. That's higher than BMW 525i and Acura Legend.

All of which suggests there is one thing our engineers can't change on the Maxima SE. Our customers' satisfaction with it.



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THE NEW GOSPEL OF GOOD GOVERNMENT

To strapped officials, David Osborne has the answers. Does he?

A year ago, Lawton Chiles, Florida's newly elected Democratic governor, was putting the final touches on his inaugural address when an aide burst in with bad news: Massachusetts Governor William F. Weld, a Republican, had just given much the same address at his inauguration. "Government should steer, not row," Weld intoned. "Government should focus on results, not rules." Weld had taken the aphorisms right out of Chiles's mouth. Chiles hastily drafted a new speech.

Gubernatorial plagiarism? Sort of. But both Chiles and Weld had lifted their words from David Osborne, a 40-year-old author, consultant, and tireless evangelist for efficiency in government. With Osborne's blessing, governors, senators, mayors, and city council leaders are all swiping his lines. So are Presidential candidates: Democratic hopeful Arkansas Governor Bill Clinton sprinkles his stump speeches with such Osbornian phrases as "empowering rather than serving" and "paying for performance."

Behind all this rhetorical pilfering is a revolution in state and local government. Osborne's books and speeches have started a movement called "entrepreneurial government." The message: Centralized government is failing. Bloated bureaucracies and rigid rules block efficient delivery of services. The public sector must become responsive to citizen-consumers. Governments must become more like businesses, even if that means wrenching reorganization.

At a time of fiscal crisis, and with the Osborne method promising to cut costs

without eliminating essential services, the movement is well under way at state capitols and city halls around the nation. "It's everywhere I look," says Osborne. Except, so far, in Washington. While his ideas have taken hold in parts of the Pentagon and are popular with some White House aides, the federal government is largely oblivious to the wholesale restructuring in many states.

Some enthusiasm for Osbornism may be little more than hype over the latest government fad. And critics—mainly union leaders and state legislative barons—complain that it causes painful upheavals whose benefits and savings are grossly overstated. The changes can result in staff reductions, making remaining workers resistant to reform. "It's bad management to threaten people and then expect them to make constructive changes," says Robert E. McGarrah Jr., director for public policy for the American Federation of State, County & Municipal Employees (AFSCME).

ITINERANT PURVEYOR. But much of the acceptance of Osborne's principles seems genuine. The deep fiscal crisis has prompted some iconoclastic governors to seek fundamental reform. "In spite of everything the states did last year, they find themselves in the same situation, with severe budget shortfalls," says William T. Pound, director of the National Conference of State Legislatures. "I expect to see a lot more experimentation."

Osborne, somewhat surprised by the attention, says he's just an itinerant purveyor of good government ideas. A San Jose (Calif.) native, he worked as a jour-

nalist for Pacific News, an alternative wire service that opposed the Vietnam War, and freelanced articles to magazines after graduating from Stanford University. Soon after the 1978 passage of California's tax-cutting Proposition 13, he got intensely interested in government. "Proposition 13 signaled the death of the New Deal and the Great Society, and the beginning of the tax revolt and Reaganism," says Osborne. "It was an awakening for me." In 1985, Osborne wrote *Laboratories of Democracy*, which outlined how governors were trying new ways of providing social services because of the tax revolt. The book was well received but no best-seller.

These days, Osborne spends most of his time consulting for governors and mayors. Working out of his suburban Boston home, he sees the best and worst of local government. But he still considers himself a journalist, and his *Reinventing Government*, co-authored with Ted A. Gaebler, a former Visalia (Calif.) city manager, is due out on Feb. 13 from Addison-Wesley Publishing Co. In it, Osborne chronicles the efforts of hundreds of government officials to bring business techniques to public services.

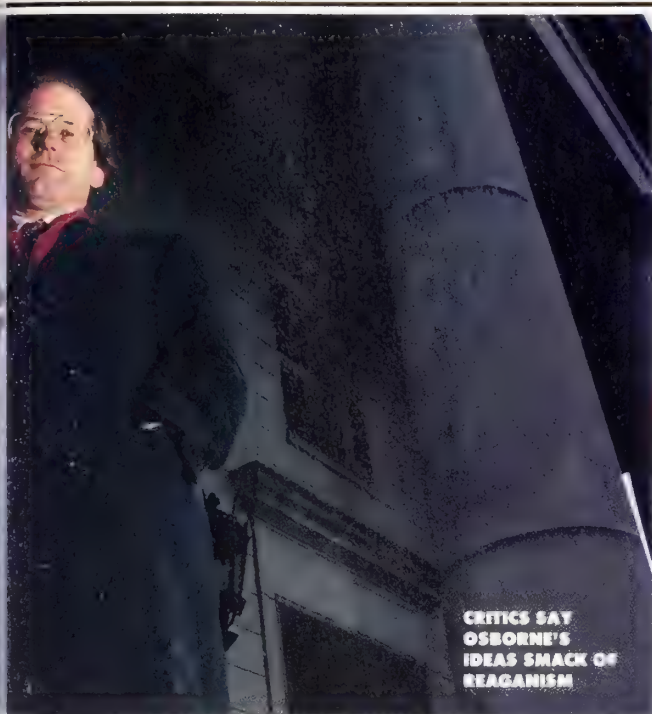
HOW TO 'OSBORNIZE' GOVERNMENT

DECENTRALIZE

To hasten decision-making and encourage innovation, Florida may soon break up its largest agency, the Health & Rehabilitative Services Dept., among 15 districts. Headquarters staff would be cut as some of HRS's \$8.4 billion budget and 44,000 workers are dispersed locally

INTRODUCE COMPETITION

To spur efficient garbage collection, Phoenix requires its Public Works Dept. to bid against private carters. At first DPW lost, but after automating and trimming staff, it won back the business. Solid-waste removal costs have dropped a year. Phoenix now bids several serv-



**CRITICS SAY
OSBORNE'S
IDEAS SMACK OF
REAGANISM**

The tome won't go flying off the shelves at Waldenbooks, but it will be a best-seller among public-sector cognoscenti. The key point: Bureaucracies can't act quickly enough to solve a multitude of problems that require more than one-size-fits-all solutions. To reform, government should use business principles to get better results for less money. "It's long overdue," says Thomas J. Peters, author of *In Search of Excellence*. "At each level of government, you see people experimenting wildly with Osborne's ideas—anything we can do to encourage it is admirable."

Osborne's book brings to life the experiences of hundreds of lonely government innovators. John Falco, for example, transformed New York's East Harlem school district from the worst performer in the city to one of the best by eliminating bureaucracy, letting teachers run their own schools, and forcing schools to compete for students. Then there's Tom Fulton, the lone employee of the Minneapolis-St. Paul Family Housing Fund, who over 10 years avoided the mountains of red tape thrown at him by the federal Housing & Urban Development Dept. by working

through a nonprofit corporation. Fulton helped house some 7,000 families, either by finding financing to develop rental units or helping them buy homes.

Florida's Chiles has gone the furthest with Osborne's ideas. Facing a \$1 billion budget shortfall, he says he "decided to turn a crisis into an opportunity."

Chiles took up the school system first, getting the state legislature to remove dozens of restrictions and school administrators and giving parents a voice

in determining curriculum and standards. Chiles also persuaded lawmakers to reform Florida's civil-service system, which stopped managers from rewarding good workers or punishing the slackers. An experimental program in two agencies lets managers give bonuses to workers who boost productivity.

In mid-January, Chiles will ask legislators to decentralize the state's behemoth social services agency, the Health & Rehabilitative Services Dept. Instead, 15 regional citizen councils would decide what goals they want to achieve and how they will measure the results. For example, Chiles says, the council in the retirement haven of Broward County would likely emphasize senior services, while a panel in agricultural central Florida might tailor services for farmworkers.

'DESPERATE TIMES.' Massachusetts' Weld is not far behind Chiles. When Weld took over in 1990, the state's credit rating was one step away from junk-bond status. "Desperate times required desperate measures," he says. Weld is privatizing big chunks of state government, has backed an optional school-choice bill that encompasses 30 districts, and has issued a reform package that

cuts 140 rules affecting everything from industry to child-care providers, universities, and consumers. He started one of the nation's first managed-care programs for medicaid patients, in which private advisers help recipients select a cost-effective health plan.

Soon, Weld will propose the most radical reform of all: a budget that seeks funding for about 100 "service delivery groups" instead of the 1,200 line items in previous requests. If the state legislature goes along, managers of these groups would have the flexibility to decide where the money is needed.

Weld says he's trying to "get rid of our muscle-bound, bureaucratic approach. I want everyone to question why we do the things we do." For example, he says that while only 6,500 of the state's 35,000 public and mental health beds were occupied, "no one said: 'Why not close some of them?'" Over the next three years, Weld will shutter 9 of 34 hospitals, transferring patients to private facilities. The controversial move may save \$60 million by 1994.

Texas Governor Ann W. Richards has made changes prompted by Osborne in the Lone Star State, which has faced a financial crunch every year since the mid-1980s. The first-term Democrat has instructed agency heads to survey "customer" needs. In her own office, she began a "customer-service" training program to prompt better responsiveness.

Richards also asked Comptroller John Sharp to find new ways to provide more services with less money. He produced three volumes of recommendations, and the legislature, enticed by the \$2.6 billion in savings that would forestall big tax increases, adopted 65% of them. One measure lets state agencies keep half the savings they produce by boosting worker productivity for investing in additional money-saving schemes. Many departments have been freed from line-item budgeting, and many managers now are able to give bonuses to top performers. Says Osborne: "I'm amazed by how much she got done. It's as if the resistance just melted away."

Not everyone has joined this mutual-

BROW OUT THE RULE BOOK

circumvent red tape at the U. S. Housing & Urban Development Dept., Minneapolis housing authority created a nonprofit fund for low-income housing. In 10 years, with one employee, it had financed 1,700 homes and more than 2,000 rental or co-op units

REWARD RESULTS

To motivate government workers to be more efficient, Florida exempted its 445-person workers' compensation division from civil service rules. The unit cut managerial staff and used the savings to pay bonuses for productivity, which jumped more than 7%

MAKE MANAGEMENT FLEXIBLE

To stop wasteful 'use it or lose it' year-end spending, Massachusetts may soon eliminate the line-item budget. Instead of making 1,200 allotments, the state would grant its \$13 billion budget to 100 program managers, and they could shift spending as the year progresses

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admiration society. Al Bilik, president of the AFL-CIO's Public Employee Dept., says some state efforts to privatize services are thinly disguised attempts to lay off state workers. "The net effect is that Osborne's ideas create nothing but chaos, and costly chaos," he charges.

In both Florida and Massachusetts, public-employee unions, teachers, and tradition-minded lawmakers are starting to feel threatened. Says Charles W. Brannon, assistant to the president of AFSCME in Florida: "My view is there will be very little change, and the changes I've seen haven't done anything to improve the system." And Florida Senate President Gwen Margolis, a Democrat, is leery of ideas that smack of Reaganism, in which local control is often a euphemism for "wiping your hands of responsibility."

Other critics say it's difficult to verify the savings that governors claim. Indeed, in Florida, an audit failed to prove that the workers' compensation unit truly increased its productivity under its new bonus plan, because there was no historical data or reliable information on error rates. "Governments don't have ways to measure performance," says Harry P. Hatry, an Urban Institute researcher. "Until they do, merit pay is probably not a good idea." He adds that pay for performance can produce perverse results, such as mistakes by employees doing their jobs hastily just to get their bonuses.

PARTISAN ARMLOCK. For all the progress these management ideas are making in the states, the biggest bureaucracy of all—Washington—remains staunchly resistant, showing little interest in innovation. Says Senator Joseph I. Lieberman (D-Conn.), an Osborne devotee who promotes, to little avail, restructuring ideas in Congress: "Too many Republicans and Democrats wear partisan straitjackets that bind us to failing old ideas and keep us from seeing novel ways to make progress." More often than not, Washington is preoccupied with getting re-elected and not with tackling the \$350 billion budget deficit or other pressing problems.

That focus drove a frustrated Chiles to end his 18-year career in the Senate in 1988. But after hearing Osborne speak and discovering that "there was life and vitality in local agencies," Chiles two years later decided to try public service once again. To him and many other governors, the idea of making state government work more like business is neither a liberal nor conservative cause—it's just plain common sense. But it could well be vital to the future of America.

By Paula Dwyer, with Susan B. Garland, in Washington, Gail DeGeorge in Miami, Gary McWilliams in Boston, and Stephanie Anderson Forest in Dallas.

Labor

JOB TRAINING



AUTO SPA CAR WASH IN FAIRVIEW HEIGHTS, ILL.: CHEAP LABOR, WITH FEW STRINGS ATTACHED

90 DAYS TO LEARN TO SCRUB? SURE, IF UNCLE SAM'S PAYING

The \$4 billion job-training boondoggle is a bonanza for employers

The federal Job Training Partnership Act has been a godsend for Robert L. Gregory. When he needs help for his Auto Spa car wash in Fairview Heights, Ill., he calls the local JTPA office. It sends over motivated workers and pays half of their \$4.50 hourly wage for the three to six months Gregory trains them to wash cars. "I would be kidding you if I told you I didn't like the subsidy," says Gregory.

Since 1982, thousands of employers have tapped into the \$4 billion-a-year JTPA bonanza. And now, citing examples such as Auto Spa, the General Accounting Office (GAO) and the Labor Dept.'s Inspector General (IG) are calling the program a boondoggle. In recent reports, both charge that employers use the wage subsidies—quite legally—to hire workers they would have employed anyway. States have used federal training funds, sometimes improperly, to lure new plants. And, the studies say, lax oversight has led to cheating: Some private training agencies, for instance, have gotten federal funds for placing trainees in jobs—even though they haven't. "Many businesses are taking advantage of the federal government," says Franklin Frazier, the GAO's director of education and employment issues.

Labor Dept. officials who oversee the JTPA argue that they have curbed many abuses. But the IG calls the problems "systemic in nature" and says that the department's own program directors agree. Citing "numerous accounts of waste, fraud, and abuse," an Oct. 7 report by the House Education & Labor Committee says that while the JTPA has helped train workers, it has "fundamental flaws." Now, bills have been introduced in Congress to fix those.

Congress created the JTPA to replace the Comprehensive Employment & Training Act (CETA), which didn't train workers so much as create subsidized short-term government jobs. Unprepared for useful employment, disadvantaged people later went back on the street. The JTPA, the brainchild of then-Senator Dan Quayle (R-Ind.) and Senator Edward M. Kennedy (D-Mass.), was designed to put trainees into permanent jobs—for \$8 billion a year less than CETA's tab.

REFRESHER. The JTPA is administered by state agencies and by 600-plus Private Industry Councils, made up of business and community leaders. They pay companies, such as Auto Spa, to train workers on the job. They also hire private training institutes, which are paid according to how long participants are

trained and how many of them find jobs afterward. Some 90% do find jobs, says Assistant Labor Secretary Roberts T. Jones, who runs JTPA. But, asserts Inspector General Julian W. De La Rosa, JTPA primarily helps "people who only marginally need training for placement with employers who would have hired them without the program."

For instance, the GAO cited one employer who received JTPA funds for a year—for training an already-experienced oil-burner technician. Another got four months of subsidies to train a driver who had five years' experience (table). Says Wayne J. Sylvia, a senior GAO evaluator: "The states we looked at were not monitoring this at all." The IG found that several contractors collected \$600,000 total for training 200 workers who had been hired before training began.

Investigators also challenge the time taken to train workers. Labor Dept. guidelines suggest 30 days for bottom-level jobs. The GAO cited Gregory's Auto Spa as taking far longer. Another company got an 80-day subsidy to train a rug cleaner. A third collected for 73 days to train a laundry attendant. Some employers say it really takes that long. But GAO investigators say subsidies have become a windfall manipulated by both employers and state officials. "The local JTPA people... allow businesses to get away with it," says the GAO's Frazier.

Federal watchdogs also blast the companies that arrange on-the-job or classroom training. The IG cites one called Orleans Regional Security Institute. The New Orleans company recently collected \$500,000 in JTPA funds to train and place 195 security guards. But only 71 landed permanent, full-time jobs as required by Orleans' contract. Most ended up in temporary positions, and 29 of those jobs

didn't last the 10 days stipulated in the contract, the IG says. Some trainees were placed unsuitably as ushers or janitors. Others got no work at all.

MOPPING UP. States have also engaged in monkey business in the often frantic effort to lure companies and jobs. In 1986, for instance, Indiana promised to use JTPA money for screening and training workers for Fuji Heavy Industries Ltd. and Isuzu Motors Ltd. if they would build a plant in Lafayette. Last year, the IG found that the state had spent \$523,648 improperly. Local JTPA officials had helped the joint venture select the 500 best-qualified candidates, then set up a training program for them, whether they were eligible for JTPA funds or not. And some of the money was used to pay Japanese translators.

The legislation in Congress would curb some abuses. Last fall, the House passed a bill that would tighten federal standards for the JTPA and reduce state control. It also would earmark funds for people, such as dropouts or welfare recipients, who face the biggest employment barriers. And the bill would limit the length of time wage subsidies may be paid for on-the-job training. The Senate has yet to take up these proposals, which the Administration supports.

The debate over job training isn't likely to end, even if the legislation passes. The JTPA program has money to serve only 5% of the 33 million Americans who are eligible, based on their incomes. And most of the several million hard-core unemployed—those who read at or below a second-grade level—barely benefit at all. Still, between Congress and the federal watchdogs, more of the funds may soon go to people who need help rather than to businesses that don't.

By Susan B. Garland in Washington

HOW JOB-TRAINING FUNDS ARE BEING MISUSED

General Accounting Office and Labor Dept. inspectors found that the \$4 billion-a-year federal job-training program is rife with abuses:

ON-THE-JOB TRAINING

The program provides employers with a 50% wage subsidy for trainees

- ▶ An oil-burner technician was trained for a year even though he had five years' experience at the same job
- ▶ Employees were trained for 129 days to learn how to wash cars
- ▶ A janitor was trained for three months for a job he had held for 19 years

STATE INITIATIVES

Each state disburses training money according to broad federal guidelines

- ▶ Indiana spent \$523,000 to train 500 workers at the Subaru-Isuzu automotive plant, even though more than 80% were not eligible for the program

CONTRACTORS

Outside contractors get paid for training workers and placing them in jobs

- ▶ Computech Inc. in Houston got \$643,606 to train and place 171 clerks in full-time jobs, but half were placed in temporary jobs or had prior experience

DATA: GENERAL ACCOUNTING OFFICE, LABOR DEPT.

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THE YIELD TRAP

RATE HUNTERS MUST THREAD A LABYRINTH OF RISKS

Brother, can you spare some yield? These are tough times for savers. As interest rates have plummeted, people are cashing out of money-market funds and certificates of deposit to seek higher returns elsewhere. Brokers and mutual-fund companies are dangling what look like scrumptious returns on such instruments as collateralized mortgage obligations (CMOs), municipal bonds, foreign bonds, bond funds, and even common stocks.

But in the search for higher yields, savers are taking higher—and sometimes not so apparent—risks. What concerns financial advisers and regulators is that many of those venturing out have little understanding of how higher-yielding investments work or how their principal may be at risk. Changes in interest rates, credit quality, and even foreign currencies can chew up the value of their investments. "We're getting an unprecedented number of calls from novice investors who are bank CD customers," says Neal Litvack, a senior vice-president at Fidelity Investments.

The reach for return also raises the potential for scam artists to prey on gullible investors. While reports of yield-related scams are yet scarce, regulators suspect some may be under way and yet uncovered. "From the time someone invests to the time he realizes he's been duped can take six months," says Don Saxon, director of Florida's Securities Div. Saxon thinks scam artists will have an easy time fooling investors, because they won't have to promise 40% returns to get their money. Instead, he warns, they only have to promise a plausible-sounding 10% return.

If anything, the hunt

for higher yields will intensify. Short-term interest rates are expected to remain lower than 4% for months, and they could slide to 3.5%. That virtually assures that millions of CD owners will face sticker shock once again. Banking analysts estimate that in April alone, about \$100 billion of CDs will come due. In the last week of December, a record \$21.3 billion spilled out of money-market funds. Part of that outflow was seasonal, but much was money in search of higher returns.

As they venture out of the security of a bank or money-market fund, savers could face four dangers:

■ **Interest-rate risk.** When interest rates rise, the value of bonds and other interest-bearing investments falls. (When rates fall, the values rise.) How much a bond declines depends on its interest rate and the number of years until maturity. Suppose one pays \$1,000 for a 7% Treasury bond that matures in 30 years. True, the interest payments are guaranteed by the government. But if rates suddenly shoot up by even one percentage point, the bond price tumbles to \$886 (table).

■ **Credit risk.** Sure, the bonds of some companies are paying double-digit inter-

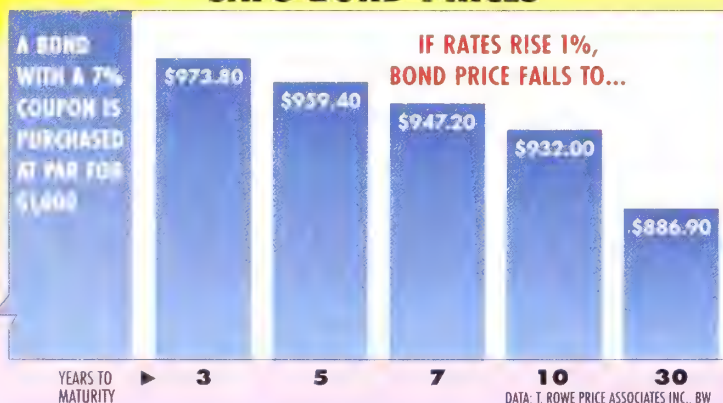
est rates, and some states are doling out 8% tax-free. But to get those yields, investors have to accept some chance of default. Remember the bonds of Pan American World Airways Inc. and Federated Department Stores? They once paid a lip-smacking 15%. They're paying zero now. That's credit risk.

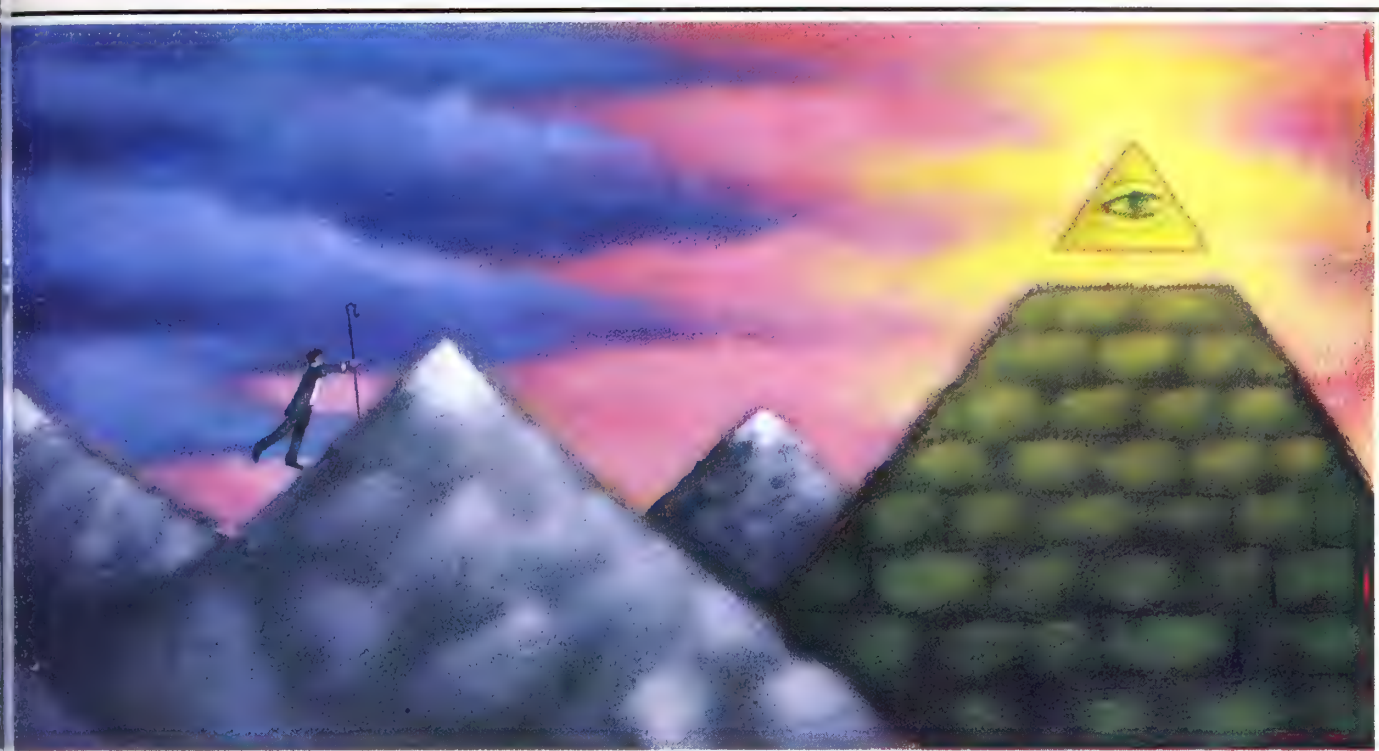
■ **Prepayment risk.** When interest rates fall, you're not the only one who thinks about refinancing debt. All borrowers like to issue new, lower-cost debt to pay off the older, higher-priced debt. Companies may even "call" their bonds, in effect requiring bondholders to redeem them. Homeowners do the same when they replace high-interest-rate mortgages with lower ones. So those bondholders and mortgage holders who thought that they would be earning some juicy returns for years suddenly get their money back and have to settle for a lower yield when they reinvest.

■ **Currency risk.** Consider the investor who jumps for the 15% returns now available in Mexican Treasury bills. He must convert his dollars into pesos to buy the bills. Then, suppose the Mexican government devalues the peso by 20% during the next year. He will get 20% fewer dollars when he converts back to greenbacks, turning a tasty yield into a sickening 5% loss.

Not all risks apply to

HOW A SMALL RISE IN INTEREST RATES SAPS BOND PRICES





every investment, nor do they affect investments in the same way. U.S. government bonds have no credit risk, but they are the most sensitive to interest-rate risk. With junk bonds, credit looms more important than the level of interest rates. When looking at the wide array of alternatives to CDs and money-market funds, investors have to go beyond the benefits of a higher yield and take a good hard look at the risks. Here is how to avoid potential mine fields:

U.S. TREASURIES

Anyone who just left the security of a bank CD should take a look at Treasury notes (securities that mature in 2 to 10 years) and bonds (10 to 30 years). The principal and income are guaranteed by the federal government, and the bonds will always pay off in full at maturity. An investor wanting to sell them before maturity will have no trouble; U.S. Treasuries are the most liquid securities in the world. But he will have to take less than his original investment if interest rates have risen.

Still, the risks are minimal for investors who stick to the shorter maturities. A five-year U.S. Treasury note yields nearly 6%, which is a significant pickup in yields over a CD or money-market fund. With inflation expected to remain tepid for the next few years, the chance of loss because of a spike in interest rates is small. To hedge their bets, investors can purchase bonds that mature in several different years. That assures there's always some new money ready for reinvestment at higher rates if they do shoot up. Many advisers suggest that

investors buy nothing beyond a 10-year bond. The extra yield from a 30-year bond is only 0.7 percentage points, not much of a gain considering the potential for loss if rates rebound sharply. Remember, the longer the maturity of the bond, the greater the decline in its price when interest rates soar.

An often-overlooked alternative to

SOME HIGH-DIVIDEND YIELDS THAT MAY BE IN JEOPARDY

Company	Yield
ARKLA	9.1%
CHEMED	6.9
FEDERAL MOGUL	5.8
FORD	5.0
GENERAL MOTORS	4.7
HARTMARX	7.3
IMPERIAL OIL	5.1
PANHANDLE EASTERN	5.4
TENNECO HOLDING	4.7
THOMAS INDUSTRIES	6.4
U.S. SHOE	4.0
WESTINGHOUSE	7.0

DATA: INVESTMENT QUALITY TRENDS

Treasuries are U.S. Savings Bonds. They pay a variable rate of interest, now 6.38%, which is reset twice a year. If rates rise, so will their yields. The government also guarantees it will pay at least 6%, even if overall rates drop below that level. Another neat feature: Bondholders don't pay tax on the inter-

est until they redeem the bonds. The only drawback is that investors must hold the bonds at least five years to earn the guaranteed rate. Those who cash out beforehand earn a lower yield.

MUNICIPAL BONDS

Don't be put off by what seems to be the low yield of most municipal bonds. Financial advisers put them high on their buy lists. Now, a five-year, 5% muni bond yields the equivalent of a 7.25% taxable return to an investor in the 31% tax bracket. Better yet, investors who buy bonds issued in their home states pay no state or local income tax.

Munis carry a risk that Treasuries don't, however: credit risk. And with a lingering recession, falling tax revenues, and decreased federal aid, many states and municipalities are in a fiscal bind. On Jan. 6, for instance, Moody's Investors Service downgraded some New York State bonds to Baa, the same as Louisiana's and only one notch above those of Massachusetts. Even though the bonds will most likely continue to pay, the price an investor would fetch for them won't be as high as it would have been before the downgrading.

The good news for astute bond buyers is that the difference between the highest rating, AAA, and the respectable but less creditworthy single A is just 0.5 to 0.6 percentage points. Investors can stick with the highest-quality bonds without giving up much yield.

In these tough times, muni experts counsel investors to buy general obligation bonds, backed by the taxing power of the state or municipality, rather than

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higher-yielding revenue bonds, those that are paid by tolls, rents, or other earmarked revenues. Such receipts tend to fall in recessions.

Muni investors can give themselves an extra layer of credit protection by choosing bonds insured by one of the various muni insurers. However, such issues carry a lower interest rate and are hardly fail-safe. What stands behind the bond is the insurer's creditworthiness.

FOREIGN BONDS

British government bonds, or "gilts," yield about 9.6%. Canada's pay about 8%. With a government guarantee, they might look appealing. But a high yield in another country can bring a low or zero

return if the currency declines in value against the U.S. dollar.

Of course, for the past several years, higher interest rates and a declining dollar paid off for most global yield-seekers. But today, the pickup in yield is not so great as to offset much currency risk. The pound need only fall about 3% against the dollar before the yield advantage is wiped out.

The best way to go abroad is via mutual funds. They offer diversification, and in some cases, hedging against adverse moves in the foreign exchange market. Just three months old, the Fidelity Short-Term World Income Fund has sucked in \$200 million, aided by a juicy 9% yield. Sure, the fund dropped 1% of its market value on a day when Finland

unexpectedly devalued its currency, knocking the value of Finnish bonds in the portfolio by 17%. But that's a lot better than what would have happened to someone who owned the bonds alone.

CMOs

Collateralized mortgage obligations: what a mouthful. But individual investors have swallowed some \$25 billion of them. Where else can you get 9% and a U.S. government guarantee of the interest and principal payment?

But odds are that precious few investors realize they have a tiger by the tail. CMOs in the "companion class" offer the highest yields and are the ones that are most often sold to individual investors.

THE YIELD SPECTRUM: THE GAINS AND THE PAINS

INVESTMENT/CURRENT YIELD	BENEFITS	RISKS
U.S. TREASURY NOTES AND BONDS 4.7% for 2-year notes, 5.9% for 5-year, 6.7% for 10-year, and 7.2 to 7.4% in maturities from 15 to 30 years	U.S. government guarantee, liquidity, most noncallable. Interest income free from state and local taxes	Will decline in price if interest rates rise, with longer maturities suffering worst. This danger is called interest-rate risk
MUNICIPAL BONDS 5% to 7%, varies with credit rating and maturity	Income is exempt from federal taxes. Bonds issued in taxpayer's state usually exempt from state and local taxes, too	Deterioration of credit quality, as many state and local governments suffer from fiscal woes. There is also interest-rate risk
FOREIGN BONDS 9.6% for Britain, 9.5% for Australia, 8% for Canada, 7.9% for Germany	Higher than U.S. rates with foreign governments' guarantee, hedge against a decline in the dollar	Besides interest-rate risk, investors can suffer a loss if the currency declines against U.S. dollar
COLLATERALIZED MORTGAGE OBLIGATIONS 7% to 9%, depending on maturity	Interest and principal guaranteed by U.S. government	If rates take a quick fall, prepayments rise, principal is paid back sooner. Rising rates can delay principal payments for years
JUNK BONDS 11% and up	High yield, with chances for capital gains as economy and issuer's financial conditions improve	Creditworthiness may be poor, greater chance of default. Bonds may be illiquid and difficult to sell
HIGH-YIELD COMMON STOCKS 5% and up	Dividends usually increase over time and so, too, might the price of the stocks	Stock can go down in price; dividends can also be cut
PREFERRED STOCKS 7% to 10%	Yields higher than common stocks, more liquidity than corporate bonds	Preferred dividends paid only after interest payments are met. Like all fixed-income securities, price will fall if interest rates rise
REAL ESTATE INVESTMENT TRUSTS 7.9% for equity REITs; 13.5% for mortgage REITs	High yield, chance for appreciation	Real estate industry still in slump, many properties hurting
MUTUAL FUNDS Depends on the securities the fund holds, less operating expenses	Diversification, professional management, convenience, liquidity	The same as that of the fund's underlying securities
TAX-EXEMPT MONEY-MARKET FUNDS 4% to 5%	Income is exempt from federal taxes. Income from single-state funds exempt from that state's taxes, too	Credit quality is a concern, but the funds' investments are very short in duration. Yields will fall, too, if rates keep moving down
U.S. SAVING BONDS 6.38% variable rate, guaranteed minimum of 6%	Interest income free from state and local taxes, federal tax deferred until maturity	Lower rate paid if cashed in before five years

Depending on changes in interest rates, the principal can be repaid in a few years or not for 20 years. And that turns a short-term investment into a long-term gamble.

Look at one such CMO, issued on Dec. 1 (table). It sports a yield of 8.1% and was expected to have an "average life" of 8.7 years—the time at which investors should have received half of their principal back. Based on the underlying mortgages, the first principal payment is expected in 1998, and by 2004, investors should have all their money back.

But suppose interest rates fall by two percentage points from the December level. Now the investor's caught in the prepayment trap. The average life of the CMO shrinks to two years, and the entire principal is paid off in less than four. So the investor who hoped to earn 8% for 8.7 years only gets it for two years.

Higher interest rates also clobber the investor. Higher rates slow prepayments: Nobody refinances, and fewer people pay off by selling their homes. A 2% rise in rates more than doubles the average life of the CMO. In other words, the investor who thought he might be getting his principal back in 7 to 13 years now has to wait nearly 20 to get the first of his principal. The investor is stuck with a lower rate for a lot longer than planned.

CMO investors should ask brokers about the underlying assumptions in pricing a CMO. What if rates rise or fall? What impact does that have on yield and maturity? Not all CMOs are created equal. Some pay only interest, some only principal, and some pay nothing until maturity. The resale market for CMOs is thin, especially for the small lots that individuals purchase.

STOCKS

Most investors look to the stock market for capital gains, not income. But with returns so low on fixed-income investments, higher-yield common stocks, preferred stocks, and real estate investment trusts can offer higher returns. Picking stocks just for current yield is dangerous. Investors must steer around



**SELECTING STOCKS
JUST FOR THEIR
CURRENT YIELD IS
FRAUGHT WITH DANGER**

such current money-losers as Ford, General Motors, and Westinghouse, which may have to slice their dividends (table, page 73).

All dividend-oriented investors, in common with bond investors, face interest-rate risk. Common stocks do have an advantage over fixed-rate investments on that front. A successful company should be able to raise its dividend over time. That, in turn, bolsters the price of the stock—and the shareholders' income. The interest payments

from most bonds don't increase.

Conservative investors should look for companies with a history of dividend increases. Two good choices are Curtice-Burns Foods Inc., with a 5% yield, and Dominion Resources Inc., a steady utility with an 8% payout.

Investors might also consider preferred stock. Unlike common stock, the dividends on preferreds don't increase, and many issues, like bonds, are callable. To compensate for that, preferred-stock yields are higher than those for common stocks. And if the company

Creswell likes health care REITs, which own nursing homes and drug rehab centers, even after their big runup in price last year. These include Healthcare Property Investors, currently yielding 7.0%; Nationwide Health Properties, 8.4%; and American Health Properties, 7.8%. Allen Parker, manager of the U. S. Real Estate Fund, likes Federal Realty Investment Trust. It yields 7.8% and, he says, "is as solid as a rock."

MUTUAL FUNDS

Just about any of the above investments—and many combinations of them—can be purchased through a mutual fund. That way the investor has working on his behalf a pro who will worry about interest-rate volatility and mortgage prepayments.

For safety-oriented investors, the short-term bond funds are hard to beat. Fidelity's Spartan Limited Maturity Government Bond Fund currently yields about 7.5%. The Scudder Short-Term Bond Fund employs high-quality mortgage- and asset-backed securities, foreign bonds, and fixed-income derivatives to deliver what is now an 8% yield. Still, portfolio manager Tom Poor says interest-rate risk is contained. The way the fund is set up, a rise of one percentage point in interest rates would only nick about 2.2% off the net asset value.

Another twist on the short-term bond funds are the "ARM" funds, which invest in adjustable-rate mortgages. Now yielding in the 7% to 7.5% range, the principal is not at much risk since the interest payment floats with the level of interest rates. In addition, some of the fund companies are waiving or absorbing expenses to keep the yield high—and new money coming. That's

worth another half to three-fourths of a percentage point in yield. T. Rowe Price Associates Inc., for instance, promises not to charge expenses to its ARM fund until June 30.

Finally, disaffected money-fund investors might just take another look at their fund's tax-exempt money-fund counterpart. The 4.4% average yield on a tax-free looks thin, but to an investor in the 31% tax bracket, that's the equivalent of 6.4% in a taxable fund. Doesn't that put these lowly funds in a whole new light?

By Jeffrey M. Laderman, with John Meehan, Gary Weiss, Suzanne Woolley, and Joan Warner in New York, Geoffrey Smith in Boston, and Dean Foust in Washington

INTEREST-RATE SWINGS CAN WREAK HAVOC ON CMOs

	At issuance Dec. 1, 1991	If rates rise...		...or fall	
		1%	2%	1%	2%
AVERAGE LIFE* (years)	8.7	19.8	20.6	4.1	1.9
YIELD TO AVERAGE LIFE (%)	8.1	8.1	8.1	8.0	7.8
FIRST PRINCIPAL PAYMENT	1998	2011	2011	1995	1993
LAST PRINCIPAL PAYMENT	2004	2012	2013	1996	1994

*Estimated number of years until investor has received 50% of principal back. For example, on a \$10,000 investment, principal payments would start in 1998, after about six years, and an investor would have received \$5,000 after 8.75 years. The other \$5,000 would be received by 2004.

DATA: ADVEST INC.

runs short of cash, preferred holders are in line ahead of the common stockholders, but behind the bondholders. One attractive preferred is Transco Energy Co., which trades at 47 and yields 10.2%, says Eric Ryback, portfolio manager of the Lindner Dividend Fund.

Don't forget real estate investment trusts (REITs). With real estate depressed, analysts recommend equity REITs—those that own properties rather than the mortgages on those properties. They yield about 7.9%. Mortgage REITs yield 13.5%, but are riskier because of delinquencies and foreclosures. Equity REITs have "a far more predictable income stream," says analyst Catherine Creswell of Alex. Brown & Sons Inc.

THE LAWSUIT THAT COULD CUT HOME PRICES

An Atlanta court ruling may be a step toward lower brokers' fees

The residential real estate market has been in a serious slump. Sellers often have to accept bids far below their asking prices. Yet remarkably, the commissions charged by real estate brokers have barely budged. Most brokers refuse to negotiate the standard commission, which is 6% to 8% of the purchase price, depending on the region.

But those rates may not last much longer. Last summer, the U.S. Court of Appeals in Atlanta handed down a little-publicized decision that could sharply increase competition and drive down fees. The ruling barred the powerful National Association of Realtors from allowing only NAR members access to the Multiple Listing Service, the group's computerized data bank of homes for sale, which plays a key role in most residential real estate transactions. Consumer advocates say the decision could greatly increase the number of brokers who use the listing service and could slash the \$25 billion home sellers pay in commissions each year by as much as \$10 billion. The association appealed the decision to the U.S. Supreme Court on Jan. 8.

GREATER ACCESS. The appellate decision, which overturned a lower-court ruling, stemmed from a lawsuit filed by the Atlanta-based Empire Real Estate Board, a predominantly black brokers' group, and three of its members: Wendell White, E. Pearl Presley, and Fletcher L. Thompson. Empire was formed in 1939, when the NAR barred minorities. White, Presley, and Thompson balked at paying dues to both organizations but wanted to use the listing service. Other than the listing service, the NAR "has nothing to offer me," says White.

The decision has stirred a wave of anxiety among Realtors, as NAR members call themselves. It permits anyone with a state real estate license to tap into the listing service. That would include not only discount brokers who aren't NAR members but the growing number of brokers who, unlike NAR

members, represent home buyers rather than sellers. This could set the stage for far more fractious home-sale negotiations—and lower rates for brokers.

Until the high court rules, the decision covers only Georgia, Alabama, and Florida. But already, some agents and brokers in those states who aren't members of the NAR are demanding access to the listing service. "The cartel is beginning

dustrialized countries have commission rates half those typically charged by Realtors. Similar rates in the U.S. could cut the price of a house by \$3,000 or average, Brobeck estimates.

'GOOD CARTEL.' For its part, the NAR insists the appeals court erred. General Counsel Laurene K. Janik argues that anyone with a license can join the group. Realtors also argue that it's in the public interest for those who use the listing service to be NAR members and to be governed by that group's code of ethics. NAR Executive Vice-President Almor Smith recently said at a conference that while the NAR was a cartel, "there are good cartels." The appeals-court decision, Janik says, is a "mistake" with "widespread ramifications."

In the past, the NAR has successfully fought off legal assaults, winning cases in New Jersey and Iowa state courts and before the U.S. Appeals Court in New Orleans. But some antitrust experts think the Realtor group will have a more difficult time in the Atlanta case. Unlike some previous plaintiffs, the Empire Group can prove that the NAR's exclusionary rules for the listing service hurt its business. Hundreds of its members have resigned to join the NAR in order to use the service. The NAR would have to prove that its scheme "is logical and procompetitive on balance," observes Washington (D.C.) antitrust lawyer Joe Sims. "I don't see how the [NAR] people could make that argument very successfully."

Even if the NAR wins, the fight over access may not be over. The Federal Trade Commission is winding up a two-year probe of the group and its control over the industry. It has contacted agents and brokers across the country whose complaints include being barred from the listing service. Although the FTC doesn't officially confirm or deny the existence of investigations, a senior agency staffer says the commission should be taking some action within the next six months.

For the three Atlanta plaintiffs, any legal victory may be hollow. All of them have left the brokerage business and have little interest in returning. White and Presley specialize in property management, and Thompson is an automotive consultant. While a victory won't help them, it could end up having a profound impact on their erstwhile colleagues—and consumers—for years to come.

By Elizabeth Lesly in Washington



PLAINTIFFS WHITE AND PRESLEY: MAKING REALTORS JUMPY

to break up," says Stephen J. Brobeck, executive director of the Consumer Federation of America. The NAR filed the appeal to forestall copycat suits that might be filed in other states. A similar case is already pending in Boise, Idaho.

In California, where a 1978 state court ruling barred linking NAR membership with listing service access, negotiated commissions are more common than in any other state, according to a 1991 Consumer Federation study. Most other in-

Who knows your disability insurance needs best?



BY GENE G. MARCIAL

THIS PAPERMAKER COULD CRASH OUT OF THE WOODS

Pope & Talbot sounds like a law firm or an ad agency—and it's hardly a household name. Maybe that's one reason why this pulp, paper, and lumber company is just starting to stir on the Big Board while almost all other paper stocks have chalked up hefty gains in recent weeks and approached their old highs.

But that's O.K. with some pros scouring the market for economy-driven cyclical stocks that have yet to be discovered. "We've been accumulating shares of this underfollowed stock since it traded at 13, and we're trying to buy some more," says investment manager Scott Black. The stock has edged up recently to 15.

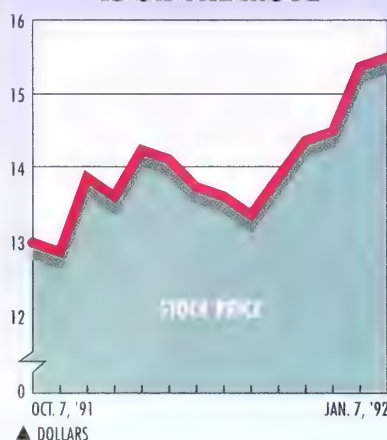
Black, who manages about \$700 million at Delphi Management in Boston, thinks the "basics" surrounding Pope & Talbot make it a compelling buy: Its balance sheet is healthy—with a modest debt of \$59 million vs. equity shareholdings of \$205 million; its stock is trading well below its book value of \$17.65 a share; and its depressed earnings are poised for a rebound.

Although he expects earnings for 1991 to come in at a puny 30¢ a share vs. \$1.70 in 1990, Black sees the bottom line looking rosier: He estimates earnings of 80¢ in 1992 and a rip-roaring \$2.70 to \$3 in 1993.

TOPS IN TISSUE. Pope & Talbot's unrecognized appeal, according to Black, lies in the growing demand for its consumer products, specifically private-label paper goods such as napkins and facial tissues, as well as disposable diapers. "We believe that the market for Pope & Talbot's consumer paper products will expand as consumer spending picks up with the economy," says Black. Pope & Talbot is said to be the largest producer of tissue products for the private-label market and the second-largest maker of disposable diapers, which are produced in plants in California, Georgia, Missouri, New York, and Wisconsin. Tissue products, diapers, and pulp generate 66% of sales and 80% of profits, while the company's wood products, such as timber, boards, and specialty lumber, account for 34% of sales and 20% of earnings.

If Black is on target, he expects the stock to double in a year or two.

POPE & TALBOT IS ON THE MOVE



A BATTERED BIOTECH BOUNCES BACK

Jumping into biotech was one of the most lucrative plays last year, when shares of most companies trying to develop new medical products boomed. But there also were stocks that delivered tremendous pain to investors. Xytronyx, which has been seeking U.S. government approval to market its disposable kit to test for periodontal diseases, was one that turned into an investor's worst nightmare. With no warning, Xytronyx plunged more than 14 points, to 13 a share, on Nov. 15.

The stock has yet to recover from that giant jolt, which came after the Food & Drug Administration told the company that it had to resolve several "deficiencies" in its application for the agency to approve marketing of Xytronyx' Periogard periodontal tissue monitor kit in the U.S. The kit contains paper strips that a dentist presses against a patient's gums to detect the presence of decaying or dead cells associated with gum disease. Xytronyx executives have been meeting with FDA officials since mid-November.

Recently, some smart-money pros have joined bargain hunters in buying in, helping drive up the stock to 18. What's behind the renewed optimism? Two things: One money manager speculates that FDA approval will come in late 1992 and predicts that loss-ridden Xytronyx will turn profitable this year because of the European sales. In March, the FDA approved export of the kit to Italy and Denmark. It will be

sold through Colgate-Palmolive, which paid Xytronyx \$2 million for exclusive marketing rights in Europe.

The money manager also thinks Xytronyx will soon announce a marketing pact with a major cosmetics company for a new product, a patch stuck to the arm or on clothing that will warn the user to either get out of the sun or apply sufficient sun protection.

Vince Boening, whose newsletter, *Technical Commentary*, has a wide following, recently put Xytronyx on his list of "aggressive buys" for 1992.

PROFITING FROM DETROIT'S GLOOM

All the hoopla in the Bush Administration about aiding U.S. auto makers has helped boost the stocks of the Big Three. But some money runners aren't rushing to load up on those giants quite yet. Instead, they are snapping up shares of less visible companies that are as likely to benefit from the industry's recent downsizing, as well as from the anticipated economic recovery. A company that's been winning new fans: Intermet, which has plants in Germany, Korea, Sweden, and the U.S. that make iron castings used in auto parts, such as brakes and steering wheels.

"It's a stock that will gain even if the industry's upswing is delayed," explains one New York money manager. Intermet has climbed from 6 in July to 8½ on Jan. 7, but the stock could still rise to its old high of 19—hit in 1987 when earnings jumped to \$1, notes this pro. He thinks Intermet could make that kind of money again. One reason: Intermet expects General Motors, which has been closing down plants and laying off thousands, to resort to more "outsourcing," or contracting with outside companies for parts.

Currently, sales to GM account for only 8% of Intermet's business, while sales to Ford and Chrysler account for a combined 40%, says Chief Financial Officer John Ernst. Scott Soffen, an analyst at Robert W. Baird in Milwaukee, points out that Intermet is also well positioned to pick up business from Japanese "transplants." "With the Japanese under pressure to increase their domestic content, they would prefer to do so with low-tech items like the ones that Intermet supplies." Soffen expects earnings to jump from an estimated 9¢ a share in 1991 to 50¢ in 1992 and then rise in 1993 to at least \$1 a share.

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DOES CHRYSLER FINALLY HAVE THE JEEP THAT IT NEEDS?

Several long, hard years in the making, the new Grand Cherokee faces tougher competition than ever

In the final months of 1988, Lee A. Iacocca faced a wrenching choice. He knew competitors were planning to challenge his company's two most profitable lines, minivans and Jeeps. But Chrysler Corp. couldn't afford to revamp both at once. With his top managers divided, the Chrysler chairman decided: The minivan would come first in a five-year, \$16.4 billion, new-product program. Then, the company would roll out a better Jeep Cherokee, new midsize and small cars, and a new pickup.

Iacocca's decision was no doubt right: Despite the recession, demand for minivans is strong. But delaying the Jeep has hurt. Cherokee sales have plunged 22%—and it has lost nine points of market share—since Ford Motor Co. introduced its Explorer in April, 1990. In fact, the Explorer is now the hottest-selling four-wheel-drive off-roader. Profits on such vehicles can be as high as \$5,000 each. So Chrysler's sales declines, says PaineWebber Inc. analyst Stephen J. Girsky, mean roughly \$365 million a year in lost profits—and a lot of lost momentum, too.

TOUGH TERRAIN. The unveiling of the Jeep Grand Cherokee on Jan. 7 may be the beginning of the long road back. Chrysler claims the new Jeep is superior to the Explorer in ride, quietness, and safety, including the first air bag in an off-roader. Customers will be the judges when the model reaches showrooms in

April, and their reactions will be crucial: The Grand Cherokee's success in a market now crowded by entries from Ford, General Motors Corp., and five Japanese companies could have a bearing on everything from Chrysler's survival as an independent auto maker to the future of some 2,100 workers at the vehicle's brand-new plant in downtown Detroit.

Just to get to market 30 months late, the Cherokee has survived tougher terrain than most of its fans ever travel. Although it never outsold another rival, Chevy's Blazer, the Cherokee became a surprise hit in the mid-1980s. In fact, it was the aura of the Jeep brand and the Cherokee's high margins that persuaded Iacocca to buy American Motors Corp. in August, 1987. When Chrysler took over, AMC was already testing prototypes of a new Cherokee.

But there was a hitch. "We really weren't happy with the vehicle," recalls Bernard I. Robertson, Chrysler's general manager for Jeep and truck engineering. Its options were too few, with only one engine—and no V-8. When Chrysler showed the design to consumers, they complained about "not enough ruggedness," says David P. Bostwick, Chrysler's manager for business planning and research. "It didn't have any personality." Chrysler considered making the new Cherokee a Dodge pickup spin-off. But the result would have been too large, fuel-hungry, and trucklike. "No

one was comfortable doing a Jeep out of a Dodge," says Francois J. Castaing, Chrysler vice-president for vehicle engineering and general manager of Jeep and truck operations. So in December, 1987, it was back to the drawing board.

RUGGED LUXURY. That coincided with a Chrysler decision to streamline its product development. The company created a "platform team" of engineers, designers, marketers, and manufacturing experts who all worked together. In an effort to make the \$1.2 billion project go smoother, the group was given more autonomy than usual in Detroit's inbred, hierarchical corporate culture. Still—mistakenly, it turns out—senior executives at Chrysler felt little urgency to move fast on the ZJ, the model's code name. Sales of the existing Cherokee were climbing. And Chrysler claims that its market research had turned up a startling fact: The Cherokee's most common garage-mate was a Mercedes-Benz. Says Castaing: "No one realized, when Cherokee was born, that it would be compared to Mercedes. ZJ is aimed at that."

Indeed, the ZJ's designers were soon adding such amenities as an automatic temperature-control system and more extensive insulation for a quieter ride. And they discarded the conventional, two-rail frame on which the old Cherokee and most other sport-utility vehicles and pickups are built. Unibody construction provided the lighter weight and sol-

THE GRAND CHEROKEE'S ROUGH ROAD TO MARKET

FALL, 1983

American Motors introduces the Jeep Cherokee. The four-door, four-wheel-drive off-roader becomes a hit with yuppies and suburbanites

JULY, 1986

Hoping to keep the Cherokee hot, AMC starts work on a new model. It plans to introduce the ZJ, as it is code-named, for 1990



DECEMBER, 1987

Chrysler, Jeep's new owner, sends the ZJ back to the drawing board

◀ **NOVEMBER, 1992**
ZJ launch again delayed—to early 1992—so Chrysler can launch new minivan first

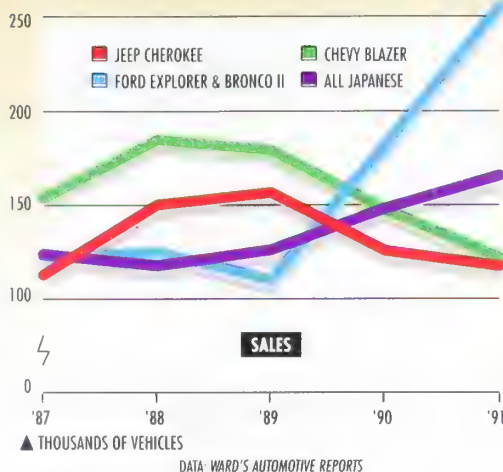
d feel of a luxury car, and it distanced the Cherokee from the Explorer's old-style body-on-frame construction. Those changes would justify as much as a \$2,000 premium over the existing Cherokee's top price of about \$28,000.

But the engineers wanted the vehicle to be rugged, too, "even if 98% of our customers never took it off-road," says Larry Baker, Jeep-Eagle Div. general manager. So they came up with a full-time, four-wheel-drive system that automatically adjusts to changing road conditions. They also gave the Jeep a four-wheel, antilock braking system. And Chrysler put a solid rear axle on its high-toned design in place of a carlike, independent suspension. "It's the most reliable off-road," says Castaing. This hybrid design, say the Grand Cherokee's developers, makes their vehicle more agile on the trails than the Explorer or the current Cherokee.

As it pinned down such details in early 1989, the team made another concession to the die-hard off-roaders. It made the Grand Cherokee eight inches shorter and one-half inch narrower than the Explorer. That gives it 2.6 cubic feet less cargo space, which may alienate suburbanites. But Chrysler says the shorter Cherokee can more easily navigate a classic off-road course: the seven-mile Rubicon Trail, a steep, boulder-strewn off-road mecca in Northern California.

Although the ultimate goal was to refine the Cherokee, not remake it, Jeep engineers set one big technical challenge: The Grand Cherokee would be the first such vehicle with an air bag. Off-roading is usually done at low speeds, but the bumpy, jerky driving offers plenty of opportunity for an air bag to inflate accidentally. Determined to get just the right touch, engineers put a snowplow on the front end and rammed a curb. Then, they smacked a tree on an empty lot in

THE CHEROKEE'S FALLING SALES



Detroit—over and over—piquing the curiosity of the local police. In the end, they repositioned the air bag sensors to trigger less easily than in a car—but fast enough to work in a highway crash.

ADVANCED TESTING. Once the basic design was set, Chrysler's resources put the project on a faster, clearer course than AMC might ever have achieved. Chrysler labs could test the rigidity of the vehicle's body on computer systems AMC didn't have. And the company put up a new \$500 million plant designed for just-in-time assembly that will double Jeep's current productivity.

By June, 1989, Chrysler's product-planning committee had approved the ZJ and ordered the tooling necessary to build it. A complete prototype was ready by March, 1990, one month before the Explorer went on sale. By then, aware of the coming competition, Chrysler's senior management was feeling more pressure. Iacocca and his top officers began reviewing the ZJ's progress about every four months.

Still, they stayed out of the way. When the platform team found the back-seat too cramped, for ex-

ample, it adjusted the seat cushion to provide more hip room and cut costs elsewhere to make up the difference. Under the old system, such decisions would have required approval from top managers, causing extra delays. "I, as president, wasn't even aware of the change until after the fact," brags Chrysler President Robert A. Lutz, a proponent of delegating authority. "Believe me, that's when you know you're making progress." The company's other new car and truck projects are now organized around platform teams, though it isn't clear whether Chrysler—or any U.S. auto maker—can routinely cut development cycles to the four years the Japanese achieve.

Now, the new model faces one more hurdle—a marketing challenge akin to the Coca-Cola Classic-New Coke balancing act. A planned slow production start-up to assure high quality means that only about 55,000 Grand Cherokees will be built by October. Meanwhile, Chrysler needs to keep selling the current Cherokee, which will seem aged by comparison. The plan: Use rebates now, and cut the price of the old Cherokee outright in the next model year. If customers act as they're supposed to, Chrysler expects to sell plenty of cheap Cherokees at a base price of \$14,000, while making plenty of money on the updated one at \$18,000 and up, depending on options. At those prices, it should be competitive with the Explorer.

"The only serious competition I see coming is the [Grand Cherokee]," says Robert L. Rewey Jr., vice-president for sales operations at Ford. In the battle between those two off-roaders, someone is going to eat dust. And Chrysler is hoping that, for a change, it will be the Explorer, not the Cherokee, that is getting a mouthful.

*By James B. Treece
in Detroit*



▲ **APRIL, 1990**
Ford introduces the Explorer, which takes over as the hottest-selling off-road vehicle. Cherokee sales tumble



▲ **APR. 19, 1992**
Grand Cherokee due to go on sale at an expected price range of \$18,000 to \$28,000

Developments to Watch

EDITED BY PAMELA J. BLACK

SPOTTING SKIN CANCER BEFORE THE SPOTS APPEAR



Early detection of malignant melanoma, a cancer that killed 6,500 people last year, can save lives. Now, a technique just introduced in the U.S., called epiluminescence microscopy (EM), may help dermatologists detect the disease before the deadly cell changes become visible to the naked eye.

Doctors perform EM by examining skin coated with oil through a special handheld binocular microscope, which magnifies things up to 40 times. Benign spots show up as a pattern of regularly spaced brown globules. A malignancy reveals itself as an irregular pattern with varying sized globules. Developed by European dermatologists, a version of EM has been used in Vienna since 1987 with encouraging results. U.S. doctors are starting to use EM at hospitals such as New York University Medical Center.

CAN WATER ZAP TOXIC WASTE?

Eliminate hazardous waste by treating it with water? It sounds like science fiction. But after years of experimentation, a form of water may finally come into its own as a means of destroying municipal solid waste, pulp industry byproducts, and even chemical weapons, according to a report published in *Chemical & Engineering News*.

Supercritical water, as the stuff is called, is water that has been heated and pressurized to become a fluid somewhere between the normally distinct gaseous and liquid states. When oxygen or some other oxidizer is added to this in-between concoction, combustion occurs—and destroys many hazardous organic compounds. Sometimes, flames are even visible. Unlike methods that yield toxic byproducts, supercritical systems leave behind mainly water and carbon dioxide.

Researchers still don't fully understand the supercritical process, says report co-author Robert W. Shaw of the U.S. Army Research Office in Research Triangle Park, N.C. And they worry that the high pressures and temperatures can corrode surfaces inside the chambers that house the reaction. Even so, Modell Development Corp. of Framingham, Mass., hopes to be using supercritical water to dispose of pharmaceutical waste in 1993. And the Defense Dept. may build a pilot plant for destroying explosives and chemical weapons agents.

TINY ANTENNAS, HUGE SENSITIVITY

Some insects "see" in the dark by perceiving the infrared signals that are given off by just about everything in nature. Now, scientists have improved on mankind's ability to detect infrared light by developing teeny antennas and novel detectors that pick up the supershort wavelengths.

The detectors are made of superconducting materials, rather

than semiconductors, which makes them more sensitive and easier to tune. They are attached to microantennas as wide as a human hair—60 micrometers across. The combination, built by researchers at the National Institute of Standards & Technology in Boulder, Colo., can pick up wavelengths one-sixth as long as those gathered by previous antennas.

NASA is supporting the research and plans to use arrays of the devices on satellites to measure trace gases suspected of causing the greenhouse effect. The Pentagon is also backing the project, since the detectors might be useful for picking up invading missiles. They could also be used by physicians to locate small surface variations in body temperature that could signal tumor growth or other problems.

STEEL WITH MUCH MORE MUSCLE

Carbon atoms called fullerenes that combine into such novel shapes as soccer balls and tubes have caused a sensation among scientists recently. Researchers have speculated that the unique carbon configurations could lead to materials with startlingly new properties.

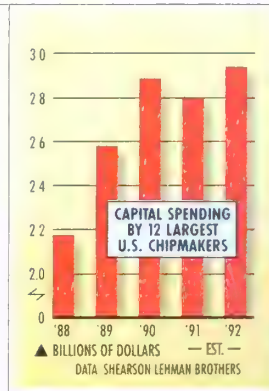
They don't have to speculate any longer. MicroMet Technology Inc. in Charlotte, N.C., has unveiled a new type of steel made with fullerenes. The material, called Rhondite, is chemically similar to conventional steel. But its structure is different: Its carbon molecules are linked in chains wrapped around iron atoms. This cable-like structure in turn wraps around a larger core of iron to form the new steel.

Independent tests of the material have found it to be 1.5 times as strong as conventional steel with a similar chemical composition. And Rhondite is 300% more durable than leading high-performance metals. Even better, according to MicroMet President Robert C. Job, the metal can be made with existing steelmaking equipment at a cost "that meets or beats the \$300 a ton for structural steel manufactured in minimills." MicroMet is looking for a partner to help commercialize the technology and to finance research into modifying the material for other applications.

U.S. CHIPMAKERS THROW IN MORE CHIPS

Now that U.S. chipmakers have arrested a decade of market-share losses to Japan, Silicon Valley's major players seem set to hold the line. Despite last year's dismal economy, capital spending by America's top 12 chipmakers was higher than midyear forecasts, according to Shearson Lehman Brothers' latest survey.

The brokerage now pegs capital investment in 1991 at nearly \$2.8 billion. That was down 3% from 1990, but it's better than the 5% decline projected last July. This year, the companies see a 5% spending increase, to more than \$2.9 billion. Comparable numbers for Japanese producers aren't out yet. The 10 leading chipmakers in Japan had planned a 2.5% hike last year. But in the waning months of 1991, several trimmed outlays—including a 20% cut at Hitachi Ltd. In 1990, U.S. chipmakers regained two percentage points from Japan and now hold 37% of the world chip market vs. Japan's 49%, according to market researcher Dataquest Inc.





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BREAKING INTO EUROPEAN MARKETS BY BREAKING THE RULES

Three U.S. companies that refused to believe 'it won't work here'

The American way isn't everybody's way, of course. But U.S. companies doing business in Europe too often settle into its inefficient, shared markets, with rigid distribution systems and low volumes. Recently,

some brash arrivistes have begun flouting the European rules with classic American competitive tactics. Here's how three—Bandag, Dell Computer, and Toys 'R' Us—are cracking Fortress Europe.



ON-SITE SERVICE:
BANDAG'S TRUCKS GO
TO THE CUSTOMERS

BANDAG: RETREADING THE TIRE BUSINESS

Pumping up European sales volume was one of Martin G. Carver's top priorities when he took charge of Bandag Inc. in the early 1980s. Although his family's tire-retreading business had been in Europe since the 1950s and enjoyed an enviable reputation for quality, its exclusive distributors followed local conventions: They charged high prices and never worried much about volume. Worse, the last of Bandag's major patents were running out, so Carver knew the competition would soon get fierce.

Bandag's response was to make itself over as the McDonald's of retreaders. It dismantled its distribution network and started over with aggressive new franchise units, costing around \$150,000

apiece. The tactic worked. Bandag's share of Western Europe's retread market has shot from 5% to 20%, putting the Muscatine (Iowa) company in a tie for No. 1 with France's Michelin. In the first three quarters of last year, Bandag's European revenues were around \$76 million, or 18% of its global sales, compared with about 5% in the early 1980s.

BIG BOOM. Analysts expect Bandag's European business to boom next year, when trade barriers fall. Freer trade will heighten competition among truckers, forcing them to look for bargains such as retreads—which sell for about half the price of new tires. Partly because of Bandag's European prospects, investors have bid up its stock sharply. It now trades at around 119, or 40% above a year ago, double the gain for the Standard & Poor's 500-stock index.

One important reason for Bandag's European success is its unique approach

to sales and service. Instead of making customers come to Bandag outlets, franchisees do much of their business in specially designed, \$60,000 Mercedes trucks filled with tires and equipment. A technician removes a customer's worn tires and replaces them with retreads on the spot. The rolling workshops are convenient, but more important, Bandag sends them out after hours so clients can keep their rigs on the road during the day.

It's a radical departure from the way other tire vendors operate on the Continent so potential franchisees required some convincing. German tire dealer Manfred Schwaderer, for one, had big doubts: He didn't think anyone would want to stick around for after-hours tire service. Now, after finding he could save clients \$500 a truck per year by servicing vehicles when they weren't producing revenue, he's a believer. Schwaderer operates a pair of Bandag distributor-

ships and is planning to set up more. Bandag's European unit has plenty of room to grow. Based in Zaventem, Belgium, it has 336 outlets in Western Europe. But that's only half the number Michelin has. To keep growing, Carver next wants to expand in cost-conscious Eastern Europe, with a goal of doubling Bandag's market share by 1995. Basic street economics make his plan seem possible. And those fancy Mercedes trucks won't hurt, either.

DELL: MAIL ORDER WAS SUPPOSED TO FAIL

When executives at Dell Computer Corp. decided to march on Europe in 1987, they knew they had to win over a deeply skeptical public. European customers had never bought big-ticket items such as PCs through the mail—the only way Dell planned to distribute them. In every country, they told us mail order would not work,” recalls Andrew T. Harris, senior vice-president for international operations at the Austin (Tex.) company. The Texans, deep discounters from day one, also found that European buyers have a long-established prejudice: High price equals good quality, low price means shoddy.

Yet Dell has stunned rivals and nay-sayers by going from no European sales to some \$240 million for the year ending Feb. 3 (chart). European sales, 95% to business customers, have become a key part of Dell's revenue picture. They will constitute nearly 30% of the estimated \$780 million Dell rings up this year, almost double the 1988 share. Even Dell is surprised by its growth spurt, particularly among corporate buyers. “Having bought one or two times, they find they need better service—or may not need the extra features of an IBM or Compaq machine,” says Elizabeth Montgomery, a computer market researcher at Britain's Inteco. “They just need something reliable, and Dell fits the bill.”

DIRECT PITCH. To get doubting European buyers to give its PCs a try, Dell waged an intense “education program”—really a series of ads in computer magazines and direct mailings throughout Britain and the Continent. The campaign, printed in seven different languages, stressed Dell's reputation for quality, service, and price. The tagline in most ads: “It's Best to Be Direct.”

Perhaps most important, Dell has made good on its promises of superior service—delighting European consumers

who have grown used to long delays and ineffective service calls. “We had delivery in about two days,” says Tim Dempsey, deputy computer manager of London's nonprofit Institute of Directors. “Every month, we get a call from Dell to make sure that everything is all right. I've never heard of anything like it.”

For Dell, the pickings have been best on the Continent, where PC prices, set by European companies such as Groupe Bull's Zenith Data Systems and Olivetti, were double those in the U.S. As Dell has swept into Germany, France, Sweden, Italy, the Netherlands, and Finland, rivals have had to slash their prices. Even IBM and Apple, which sell through expensive dealer networks that Dell doesn't use, were vulnerable. Dell is still puny by comparison, but its share of the Western European PC market has doubled, to around 1.2%, in the past couple

of years, figures Dataquest Inc. In the meantime, market leader IBM slipped to 17% from 21% in 1990.

Now, Dell would like to present a more unified face to European customers. One goal is a single, Continentwide price. Another is guaranteed five-day delivery, which isn't yet possible in every market. Based on Dell's experience so far, Harris urges other U.S. companies to dive in. “Dell is sort of a beacon,” he says. That may be overstating it a touch. But considering that most people dismissed Dell when it arrived, he can be excused for beaming.

TOYS 'R' US: MAKING EUROPE ITS PLAYPEN

It's one thing to move into a new market and encounter skeptical suppliers or dubious distributors. But when Toys 'R' Us Inc. announced plans to open its first German store in 1987, it got an unusually strong dose of outright hostility. Some German toymakers, fearing Toys 'R' Us's hard-sell tactics would squeeze their high profits, refused to sell to the retail giant. At the same time, many small toy retailers warned parents about the dangers of Toys 'R' Us's self-service approach, which didn't provide “experts,” as they did, to explain the intricacies of jungle gyms and other potentially dangerous toys. “They predicted our demise,” remembers Larry D. Bouts, president of Toys 'R' Us's international division. “They said new things don't work.”

They were wrong. Thanks to unprecedented selection, low prices, and an

American-style advertising assault, Toys 'R' Us's European revenues are climbing at triple the growth rate of total sales and are headed for \$800 million in the fiscal year ending Feb. 3. Starting with just five stores in 1985, the retailer now has 76 and counting (chart).

The key: getting Europeans to buy toys for children anytime, not just Christmas. Year-round ads emphasize both Toys 'R' Us stores' size and their low prices. They also trumpet a groundbreaking “no quibble” return policy.

In Germany, advertising year-round did more than raise Toys 'R' Us's profile. The company's ads forced hide-bound retailers to drop their modest Christmas-only advertising policy. The industry's new 12-month ad blitz has helped increase the German toy market by 50% since 1987, to \$4 billion. “We got just a quarter of that increase,” says Arnt Klöser, managing director of Toys 'R' Us in Germany. “In the end, everyone benefited.”

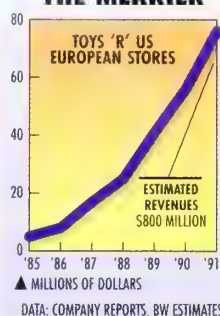
FREE RIDE. Toys 'R' Us's booming sales have been a boon for some of the German toymakers that didn't shun the American upstart. Toys from companies such as Märklin and Cosmos are showing up in Toys 'R' Us stores across Europe and may soon appear in the U.S., if they can be produced in the volume that the chain requires. A few German manufacturers are getting a free ride into the hard-to-crack Japanese market, thanks to Toys 'R' Us's hard work in establishing outlets there (BW—Dec. 9).

Toys 'R' Us is likely to have a leveling effect on European toy prices, which can be twice as high in one country as in another. The Paramus (N.J.) company now buys from distributors in each European country, suffering the same price variances as consumers. But it should be able to find Europewide sources when market barriers fall.

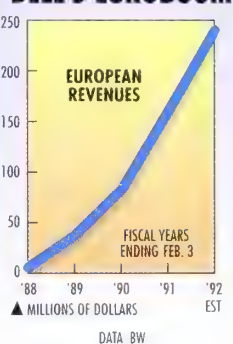
The Toys 'R' Us revolution is a long way from over. On the way to a goal of 300-plus European stores, it recently opened its first Eastern European outlet—in Leipzig—last October. “We had 35,000 visitors—our biggest grand opening,” says Klöser. “With only 60% or 70% of the buying power of the West, these people showed they're willing to buy toys for their kids before they got a new coat for mom and pop.”

By Patrick Oster in Zaventem and Brussels, Belgium, and Cologne, Germany, with Igor Reichlin in Karlsruhe, Germany

THE MORE THE MERRIER



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COMMERCIAL AVIATION
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ENTERTAINMENT
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HUGHES

MERCEDES FINDS OUT HOW MUCH IS TOO MUCH

With buyers reeling from sticker shock, it's remodeling marketing

What's the difference between \$90,000 and \$47,000? Quite a lot, even in the rarefied world of Mercedes-Benz connoisseurs.

Take Maire McAuliffe, a San Francisco neurologist who has been driving a Mercedes since 1963. When she went shopping a year ago to replace her aging convertible, McAuliffe found that Mercedes' new model was priced at \$90,000, with tax. "It was a total, unadulterated rip-off," says McAuliffe. "My conscience would not allow me to buy it." So she went out and bought a used 1987 Mercedes for \$47,000 instead. She says the experience has weakened her devotion to the 106-year-old German carmaker. "If Lexus made a convertible," she says,

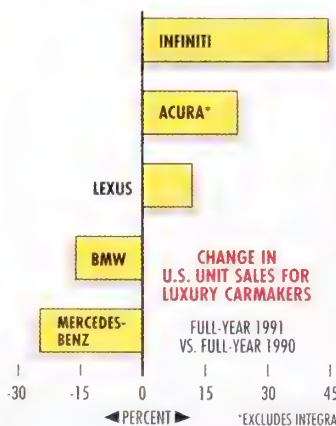
on to its position as the crown jewel of imported motor cars. At its North American headquarters in Montvale, N.J., executives are overhauling their marketing strategy from bumper to bumper. The goal: To convince U.S. consumers that a Mercedes is still worth every penny, even if it costs a good deal more than rivals such as Japan's Lexus and Infiniti. "We're making major changes in management philosophy," says Michael J. Jackson, who became the first American to run U.S. marketing in July, 1990.

emphasizing that its cars' superior safety record and high resale prices represent value for the money they command. Recent McCaffrey ads sound some of these themes, but Jackson says they could be strengthened. He also wants to tailor the message more to local market conditions. So Mercedes recently set up separate marketing offices in four geographic regions. The carmaker will settle on an agency by February.

STARTER SEDAN. Just as important, Mercedes has taken its first step to rein in prices. This year, it is rolling out a mid-size sedan intended to sell only in the price-conscious U.S. market. The 400E offers consumers a sprightly V8 engine and amenities such as burl-walnut interior trim. But Jackson says that at a price of \$55,800, it will compete for BMW, Lexus, and Infiniti buyers.

Most people agree that Mercedes still has an engineering edge. But with its sky-

CAR BUYERS ARE SHIFTING GEARS



SOURCE: WARD'S AUTOMOTIVE REPORTS, JACOBS AUTOMOTIVE



BUDGET BENZ: JACKSON WITH THE NEW 400 E

"I would have bought it instead." At a time when the recession is pinching even wealthy consumers, Mercedes' stratospheric prices seem as out of tune with the zeitgeist as Donald Trump's Taj Mahal. Add the effects of a hefty U.S. luxury tax and the dollar's weakness relative to the mark, and it's little wonder Mercedes has been particularly hard hit. In 1991, U.S. unit sales plunged 24%, to 58,869 (chart). That's quite a contrast to the recession of 1982, which barely affected Mercedes' performance.

Now, Mercedes is struggling to hold

Among Jackson's top priorities is pumping up Mercedes' advertising. Mercedes recently put its \$90 million advertising account up for review. The move stunned Madison Avenue because the carmaker's longtime agency, McCaffrey & McCall Inc., made Mercedes virtually synonymous with peerless engineering. The agency's theme, "Engineered like no other car in the world," was reinforced in a succession of stylish ads.

Jackson won't discuss the specifics of the review. But he says Mercedes has to buttress the engineering message by

high prices, ad executives and industry analysts question whether consumers are willing to pay up, even for a first-rate product. Take the flagship line, the upgraded S-class, which is priced about 20% higher than the 1991 models. The S cars start at \$69,400, with the top-of-the-line 600SEL going for \$127,800.

By contrast, the most expensive BMW sedan, the 750iL, lists for \$76,500, while a fully loaded Infiniti Q45 costs \$47,000. The putatively bargain-priced 400E is still \$8,800 more than the Q45. Says Susan Jacobs, president of consultant Ja



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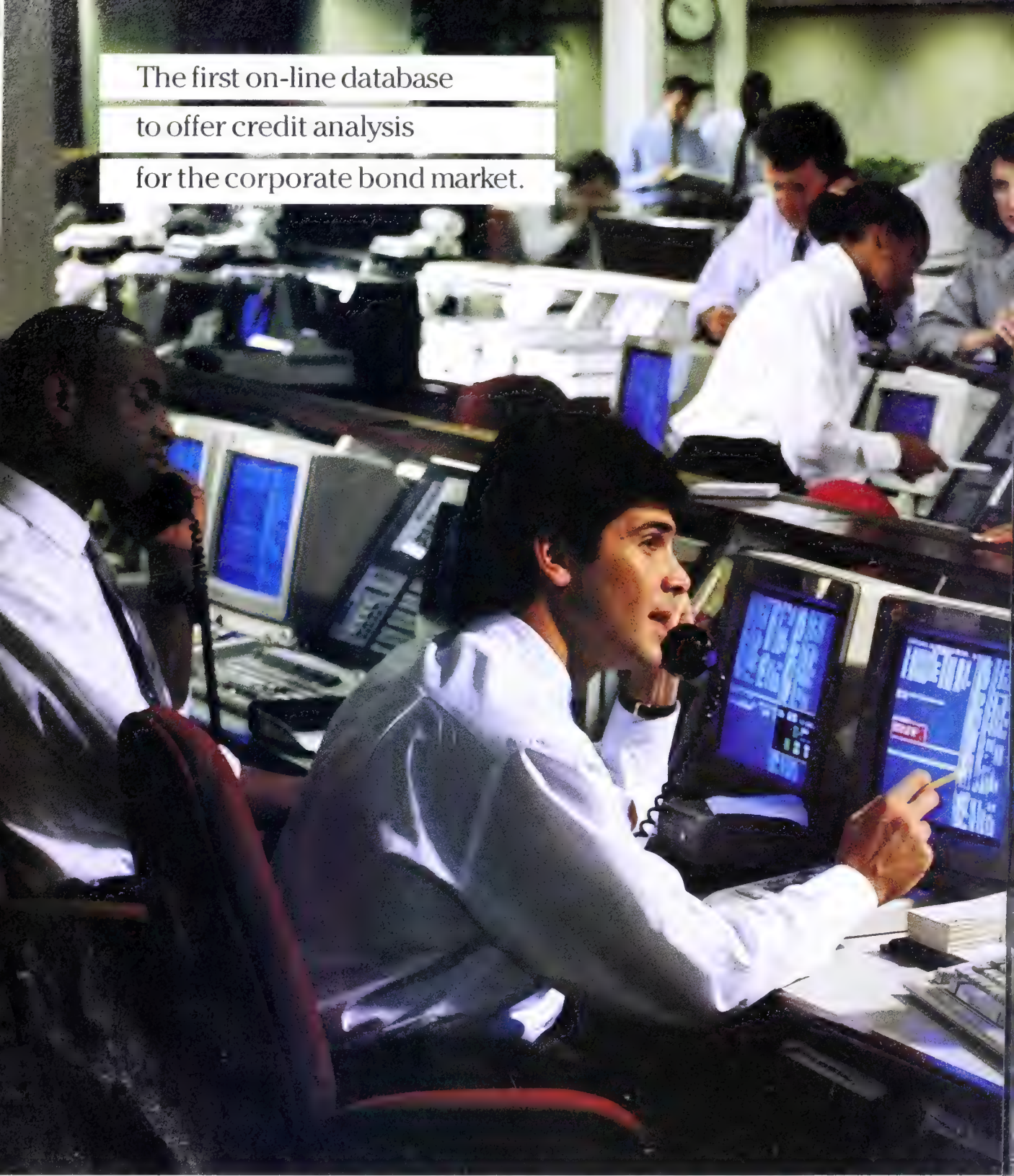
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cobs Automotive: "If a person had to drop out of the S-class, they'd be more likely to go to a top-of-the-line Lexus than a midrange Mercedes."

Indeed, some ad executives say McCaffrey is the scapegoat for a sales decline that stems from sticker shock. Says one executive with ties to the account: "I doubt there is an advertising idea in the world that can combat that."

Jackson insists the price can be justified. The S-class models, for example, come with double-glazed side windows to reduce noise and doors that automatically shut tight if left ajar. Even rivals concede such technical prowess: "Mercedes is still the gold standard," says William R. Bruce, general manager of Nissan Motor Co.'s Infiniti division.

EASY TARGET. The trouble is, admiration hasn't stopped competitors from claiming near-parity in engineering or an edge in delivering value. Some of them are even poking fun at Mercedes' high-brow approach. In a new TV spot for a Pontiac dealer group, a German-accented narrator extols Mercedes as a car zooms across the screen. In the final frame it becomes clear that the car is actually a Pontiac Grand Am. "For \$80,000 less," he intones, "you can have the car you've been watching in this commercial." And in an ad for Infiniti, actor Michael Douglas sneers that the silky-smooth Q45 "has the Germans shaking in their *lederhosen*."

Still, for Mercedes even to acknowledge competition is a big change. Jackson concedes that until now, the company had marketed its cars with little regard for the changing marketplace. One big Mercedes dealer believes this is why the advertising has failed to justify the car's price: "Some of the blame has to fall on the management at Mercedes-Benz," says Morton J. Zetlin, who owns a dealership in Arlington, Va. "They're the ones who picked the ads out."

Dealers hope that Jackson will see things from their perspective. For one thing, he used to own a hot Mercedes dealership in Bethesda, Md., and served as chairman of the Mercedes National Dealer Council for two years. Even better, Jackson also sold Acuras, the Japanese luxury line from Honda Motor Co., so he knows about his new competitors.

But so long as Mercedes sticks to its prices, Jackson may need more than salesmanship to lure consumers back. Even he doesn't expect Mercedes to regain its peak sales of 99,000 cars in 1986. He'd like to sell 60,000 to 70,000 a year. And he admits that revamping Mercedes' marketing may not pay dividends for a while: "Now, we're walking. Someday, we'll run." Quite an admission for a carmaker that's used to leaving everyone else in the dust.

By Marc L. Laroche in Montclair, N.J.

People

CHIEF EXECUTIVES

THIS 'BARRACUDA' IS STILL ON THE ATTACK

Ex-U.S. Steel chief Thomas Graham has a lot of fight left in him

They called him "the smiling barracuda." During his stormy eight-year tenure as president of U.S. Steel Group, Thomas C. Graham's relentless cost-cutting and push for productivity gains turned the once-endangered steelmaker into the industry's top major producer. Wall Street loved him, but that wasn't enough to save his job. In late 1990, Graham was removed as president and given the ceremonial title of vice-chairman of parent company USX Corp. Eight months later, he was gone.

But Graham, 64, is still baring his teeth in the steel industry. A workaholic with few interests outside the office, Graham quickly landed a job fixing little Washington Steel Corp., a troubled stainless steel producer with \$450 million in sales. Graham may be working in Washington, Pa., far from the spotlight that shined on him at USX in Pittsburgh, but his agenda hasn't changed. He's out to prove that with a dose of discipline, any steelmaker can profit and grow.

Graham's sterling career began to melt down in October, 1990, when USX Chairman Charles A. Corry casually dropped by his office on the 61st floor of the USX Tower. "We're going to make you a vice-chairman," Corry said. Graham was stunned. In Graham's place, Corry put his own protégé and Saturday-morning tennis partner, Thomas J. Usher, 49. Stripped of operating duties, Graham "paced in his office and stared out his window a lot," saysileen Kelly, his now-retired secretary. For the first time in his long career, he was "powerless and lonely," says a friend.

'PRAYER MEETINGS.' It didn't take him long to decide that coasting into retirement at 65 was intolerable. "If I can't get my hands on something, I'm very difficult to live with," Graham explains. He doesn't hunt or fish. And though USX executives gave him a set of golf clubs when he left, Irene, his wife of 43 years, can't drag him out on the course. When she does, she wins. "His hobby is his work," says his son, Thomas Graham Jr., director of product-and-process technology at rival National Steel Corp. "There's no way he'll ever retire."

Some folks at Washington Steel probably wish he would. The barracuda is charged with dressing up the company for sale, and his employees are getting a taste of vintage Graham leadership. He has instituted what became known at USX as his monthly "prayer meetings." These are sessions during which Graham grills midlevel managers. He also is getting to know Washington's custom-

A STEEL STALWART'S Rx FOR AMERICAN STEEL

PRICES

Don't complain about falling prices—use them as an advantage to sell more. Market steel as a bargain, compared with aluminum and plastic for everything from cars to microwaves

PRODUCTIVITY

Redouble efforts to increase productivity at cut costs, but not by spending freely on new mills. Instead, squeeze more steel out of old equipment; spend on essential modernization

LABOR

Too often management has given away the store. When some contract negotiations get up in 1993, play hardball—even if it means losing a strike

PRODUCT MIX

Don't concentrate so much on narrow spec markets. Big integrated producers shouldn't run from commodity markets where they compete on cost. Cut costs and reclaim market

DATA: BW

ers one-on-one. That's how he gathers intelligence about his own company—and prevents senior managers from trying to snow him. It's paying off. As of the new year, Washington's annual production is up to 220,000 tons, a 20% rise in Graham's first five months.

The increases were essential. Last July, Washington's banks created a holding company and took it into bankruptcy to stave off a Chapter 11 filing by the steel unit. The private outfit doesn't release profits, but Washington Steel's outlook is good enough now that the

holding company will likely emerge from bankruptcy this winter. With revenues expected to rise 9%, to \$450 million, by June, many employees welcome Graham, despite his reputation. "I'd be lying if I didn't say people here were apprehensive about Tom," says Chief Financial Officer Mark G. Essig. "But he's brought stability and focus."

PRESSURE TACTICS. Graham's hard-driving ways won him few friends at USX, though. Union friction was predictable, but even many white-collar workers chafed at his methods. Graham applies unrelenting pressure to improve quality and costs in the mills. He doesn't buy the widely held notion that things will improve when prices rise from the current 1981-82 levels—a rise he isn't even sure will happen. Instead, he thinks steel companies should make money even in a downturn by lowering breakeven levels.

Graham also blasts industry members for rushing out to buy expensive technology. Inland Steel Co. has poured nearly \$2 billion into its high-tech mills

tified," Graham grows. "I would have been a more formidable adversary." Graham's hard line with the unions, insiders say, was one reason Corry wanted him replaced. USX officials declined to comment for this story.

Tangling with union leaders was hardly what Graham expected when he entered the steel business in 1947. The son of a grocer and a part-time schoolteacher in Greensburg, Pa., he joined Jones & Laughlin as a draftsman with a modest goal of one day becoming chief engineer. Graham quickly rose to head the whole engineering department, building an encyclopedic knowledge of steel-mill equipment worldwide. He became CEO of J&L, by then a unit of LTV Corp., in 1975.

Combative and irreverent, Graham had no patience for corporate bureaucracy. He objected so aggressively to Chairman Raymond A. Hay's frequent meddling in the steel business that current Chairman David H. Hoag, then a division president, remembers having to step between the two executives during

out sections in the middle. "No one ever said a word," he snickers.

When then-USX Chairman David M. Roderick approached him in 1983, Graham jumped at the offer to become president of U.S. Steel. The challenge was enormous. As an outsider, Graham found the rigid, hidebound U.S. Steel management in denial. Although losses hit \$850 million during his first year, most managers refused to believe they ran the highest-cost, least-profitable steelmaker. "There was no sense of impending doom," says Graham.

He took care of that. In his drive to increase productivity, he slashed U.S. Steel's work force by 73%, lowering the number of hours per employee it took to produce a ton of steel by 66%. Graham was constantly at odds with the unions, and in 1986 he withstood a nasty six-month strike. He still has a union magazine cartoon that shows him sitting up in his coffin barking at the pallbearers: "If you'd put this thing on wheels, we could get rid of six jobs." But cutbacks were

no laughing matter. "I did a lot of violence," Graham says. "Had I not done it, there are 20,000 people employed today at U.S. Steel who wouldn't have jobs."

IRRELEVANT. Problem was, Corry—who replaced Roderick in 1989—was no fan of the steel business. He preferred USX's big oil and gas units. Moreover, financier Carl C. Icahn, who held 13% of the company's stock, was pressuring management. Graham, the steel operator, was quickly becoming irrelevant in a company that was reliant on energy for two-thirds of its revenues. Corry decided to sell the steel unit in 1990, and Graham's last hurrah was a worldwide search for a buyer. Insiders say that when U.S. Steel's sheer size—\$5.5 billion in sales last year—and potential antitrust problems prevented a sale,

Corry figured Usher—himself a 25-year steel veteran—would be a less contentious caretaker than Graham.

Sitting in his ground-floor, mauve-carpeted office at Washington, Graham says he doesn't miss the perks of a big corporate job. He's angry he wasn't allowed to finish what he started at USX, but for an operator, turning around any kind of company is a nice challenge. "It's how I get my kicks," Graham says. And for a 44-year steel veteran, fixing Washington beats retiring to the links.

By Michael Schroeder in Pittsburgh



but is still losing money. Graham insists that producers should squeeze more productivity from the equipment they already have. At USX, he demanded that its huge Gary Works in Indiana boost hot mill output by 25%. Operators balked at first but met the goal within a year.

The latest steel labor pacts are another example of failed management, he contends. USX last February granted workers a rich contract that hiked labor costs 31% over three years. Other major steelmakers were just as lenient. "They made labor agreements that can't be jus-

heated arguments. "I threatened to quit about once a week," Graham says.

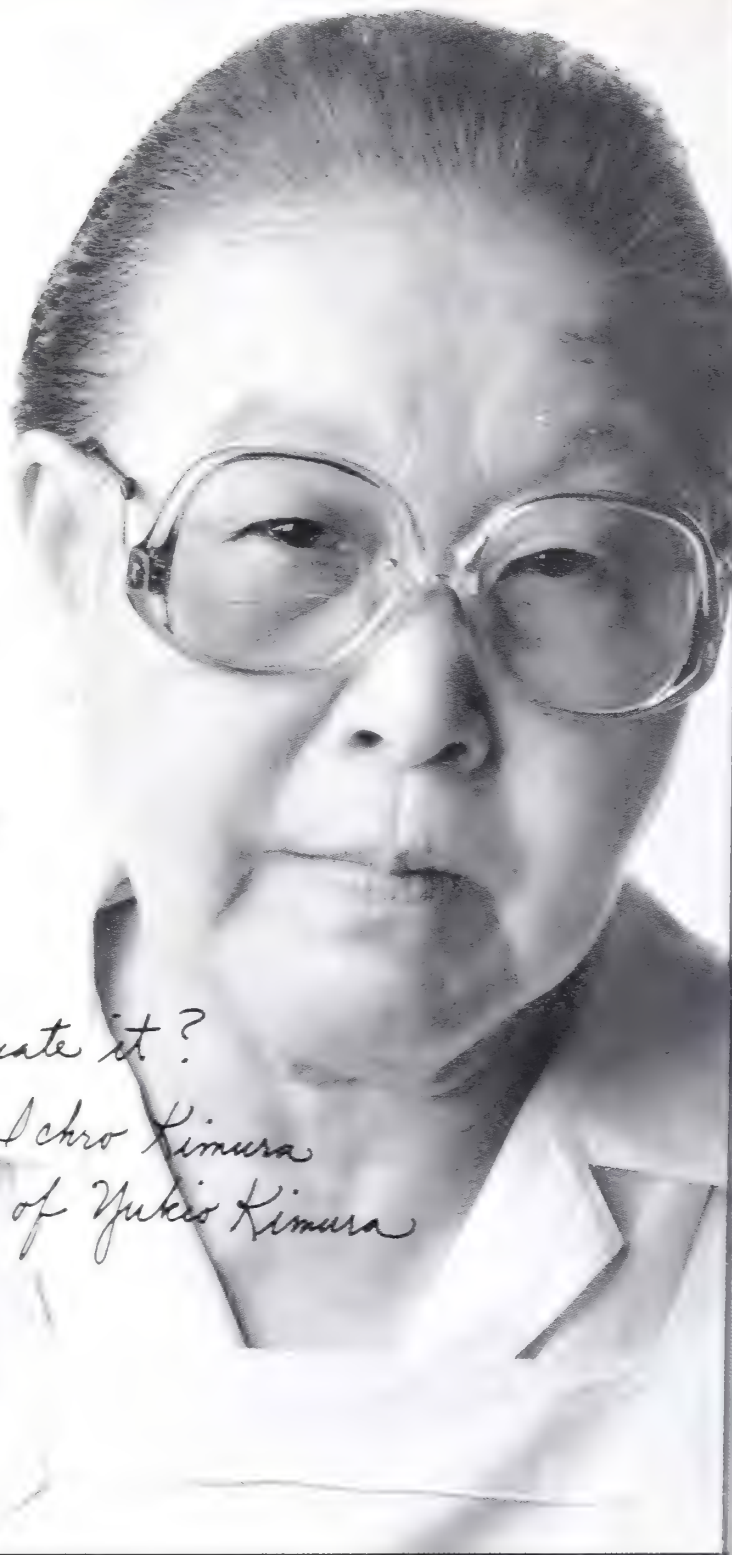
Paper-shuffling bugged him most. A classic example: At Hay's request, the consulting firm Booz, Allen & Hamilton Inc. designed an annual planning study to be completed by each LTV division. Graham doubted LTV headquarters staff in Dallas bothered reading the two-inch-thick reports. So the second year, he slapped a new cover sheet on the original and sent that to Dallas. There was no response. The third year, he sent in the original report again, with blanked-

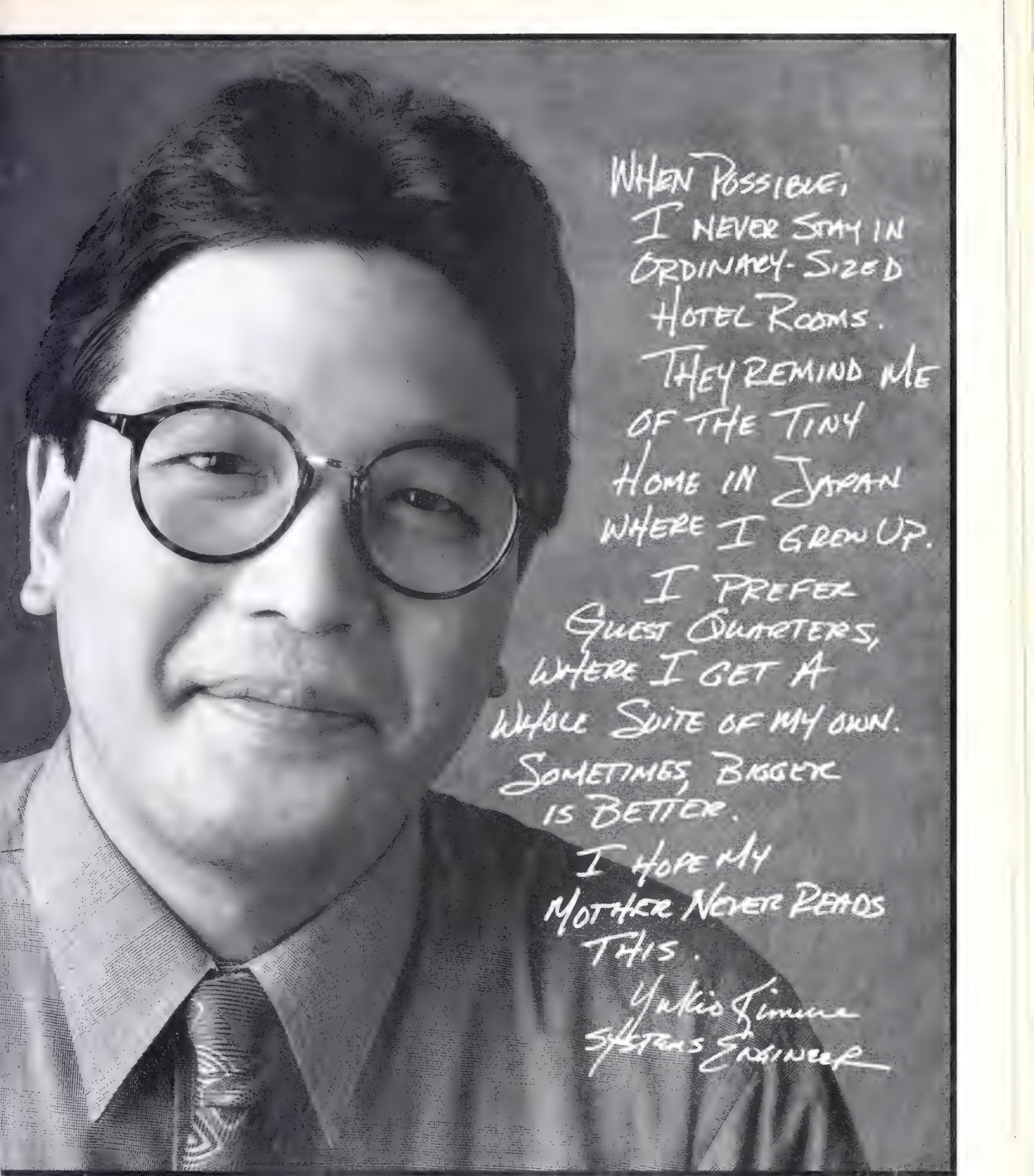
It's hard to raise
a growing boy
in a tiny home
in a crowded
city like Tokyo.
The faster Yukio
grew, the harder
I mopped and
scrubbed.

Anything to keep
his small room
neat as a pin.

Does he appreciate it?

Mrs. Ichiro Kimura
Mother of Yukio Kimura





WHEN POSSIBLE,
I NEVER STAY IN
ORDINARY-SIZED
HOTEL ROOMS.

THEY REMIND ME
OF THE TINY
HOME IN JAPAN
WHERE I GROW UP.

I PREFER
GUEST QUARTERS,
WHERE I GET A
WHOLE SUITE OF MY OWN.
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IS BETTER.

I HOPE MY
MOTHER NEVER READS
THIS.

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FIRST-CLASS SERVICE. WITH THE ROOM TO ENJOY IT.

LAYING OFF THE LAYOFFS IN LEAN TIMES

It doesn't take any brains to fire people," says Leon Danco, a Cleveland management consultant. And like heads of the family-owned or privately held businesses he advises, Danco is seeking alternative ways to help companies survive in tough times. Large corporations can take a broad, impersonal approach to cost-cutting via wholesale firings. But smaller ones often consider employees part of the family—and a wave of dismissals can be so demoralizing as to cripple a company.

So rather than firing, some CEOs are hiring—bringing in executives or consultants to find other ways to trim costs. The solutions are varied. Rodger Owen, CEO of the 125-employee Bucks County Nut & Coffee Co. in Langhorne, Pa., takes what he says is a modest salary to plow more into the business. Others have successfully appealed to lenders and suppliers for extended payment terms.

NARROW NICHES. Many smart companies are zeroing in on a single area with the most profit potential, says consultant Wendy Felson of the Wilkerson Group, which works with pharmaceutical makers. "A client may have a product that can treat many diseases, one of which has a \$500 million potential," she says. "But if 20 rivals are aiming products at that disease, it's better to focus on a market with less competition."

The approach can work in any field. Howard and Sheila Geltzer, who employ 20 people at Geltzer & Co., a Manhattan public relations firm, recently refocused the business. "Our eyes are on profitability, not

expansion like in the '80s," says Sheila Geltzer. Back then, the agency sought growth by offering offices to independent practitioners who provided ancillary services. Now it has cut the

ties to the specialized divisions to concentrate on its PR business with such clients as Sony and Black & Decker. In the process, a third of its offices were left vacant. The Geltzers asked the landlord to take back the space—and he agreed. "The rent reduction is quite a help to the bottom line," Geltzer says.

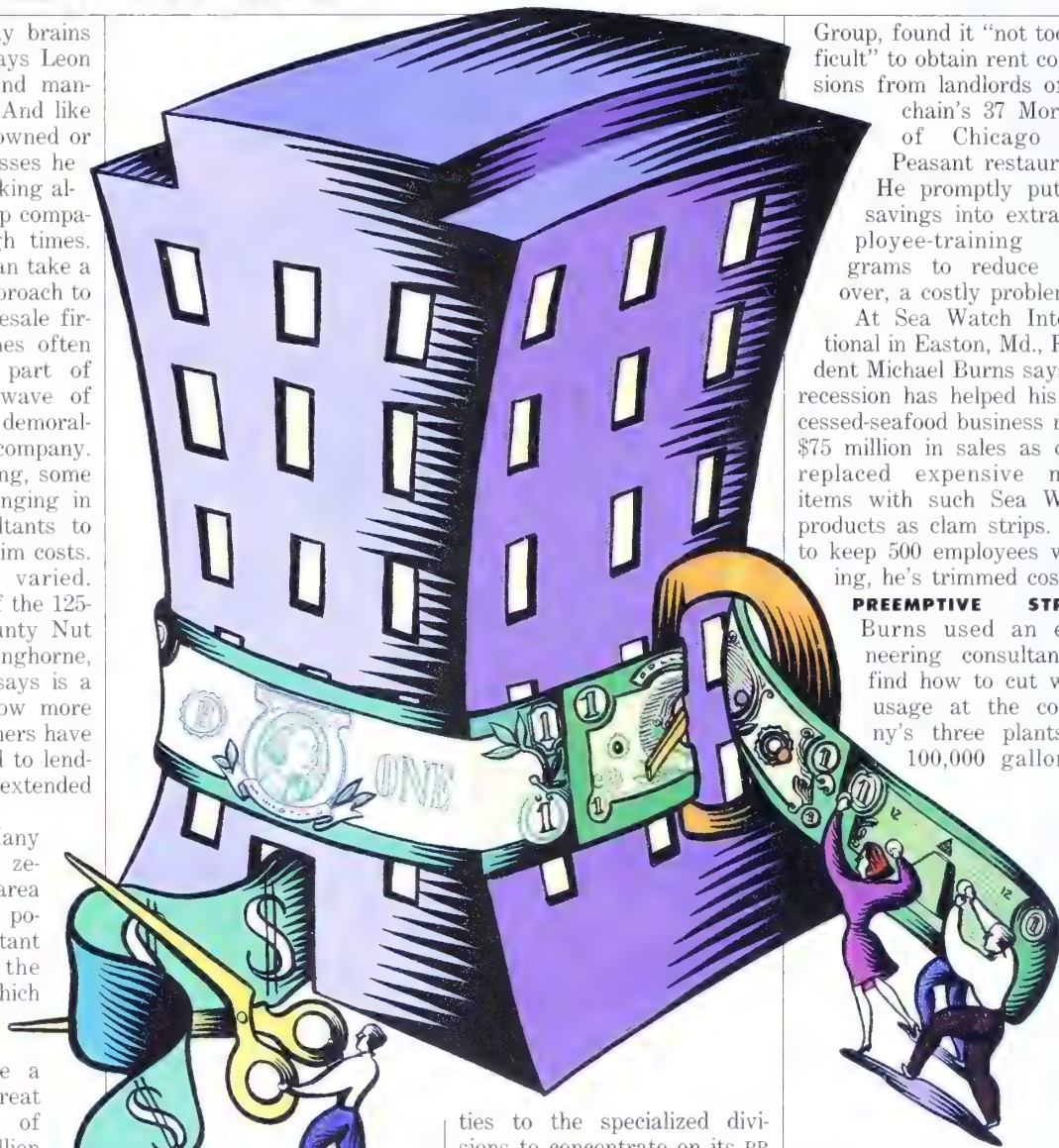
Allen Bernstein, president of Quantum Restaurant

Group, found it "not too difficult" to obtain rent concessions from landlords of the chain's 37 Morton's of Chicago and Peasant restaurants. He promptly put the savings into extra employee-training programs to reduce turnover, a costly problem.

At Sea Watch International in Easton, Md., President Michael Burns says the recession has helped his processed-seafood business reach \$75 million in sales as chefs replaced expensive menu items with such Sea Watch products as clam strips. Still, to keep 500 employees working, he's trimmed costs.

PREEMPTIVE STRIKE.

Burns used an engineering consultant to find how to cut water usage at the company's three plants by 100,000 gallons a



day. "The savings paid back his fee in less than a month," he crows. And Burns looks to save perhaps \$50,000 a year from a seemingly minor change in the company's self-insured health plan: Employees who require constant medication now purchase drugs via low-cost mail order rather than from a pharmacy.

Another executive looking

BEFORE THE PINK SLIPS GO OUT

- ▶ Place employees on temporary leave and continue to pay benefits as a good-faith measure
- ▶ See if other local businesses can use a valuable employee part-time until he or she can return to your payroll
- ▶ Create a flex-time arrangement that uses workers when the need is greatest, to reduce overtime costs
- ▶ Rent out unused offices or excess warehouse space to other companies or entrepreneurs
- ▶ Ask landlords for rent reductions, and lenders and suppliers to extend payment terms

DATA BW

creative ways to tighten expenses is John Bush, CEO of Woodward Mining & Minerals in Davenport, Iowa. Along with paring bonuses ("careful, so people don't think you're cheap"), he hired a safety director and a human resources director. The move is preemptive: Facing stricter environmental and occupational regulations, he believes the execs will ward off government fines or costly suits from employees or retirees in an era when every dollar counts. Danco, whose Center for Family Business seminars have helped executives such as John Bush, warns private-business owners not to act hastily: "A guy under economic pressure may decide to bite the

bullet and make a move without considering the long-range effects." Slashing the payroll can provide immediate savings but may disrupt new-product development or destroy a company's reputation for service. And if the reasons for downsizing aren't dis-

cussed openly, workers may develop a distrust of management that will affect productivity, adds Nimish Jhaveri at Organization Consultants in Charlotte, N. C.

He cites a case where a leisure-product maker closed one of its plants. Employees

at others began slowing down as they speculated when their own jobs would end. The company moved to quiet fears by detailing the heavy financial commitment it was making to keep each facility operating.

Consultant Richard Ten Eyck of Denver's Ten Eyck Associates agrees the times require CEOs to speak frankly if people must be let go. Employees who remain, he says, must hear something like, "It's regrettable, but by doing this, we'll survive." And he stresses that real morale problems develop if owners who consider employees part of the family order an across-the-board downsizing that hits almost everyone—except real family members. *Don Dunn*

Hobbies

GROWTH RATE? LET'S TALK ORCHIDS

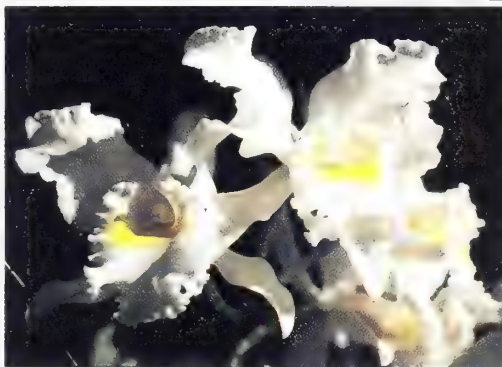
When Texaco CEO James Kinneer and two other prominent executives took a few minutes to shoot the breeze at a meeting on education reform, they didn't talk football, golf, or the economy. Their topic of discussion was more low-key—orchids, to be exact. Raising and collecting orchids is all the rage among executives and other hobbyists, who derive satisfaction and serenity from coaxing colorful, fragrant blooms out of these mysterious plants. With more than 30,000 species, each orchid seems to have a unique temperament and beauty.

MULCH ADO. But for all its rewards, the orchid habit can be time-consuming, costly, and frustrating. One day you might have a plant that appears to be thriving, and the next day it's ready for the compost heap. So if you're thinking of taking up the hobby,

Keith Lloyd, curator of orchids for the New York Botanical Garden, suggests starting with a reputable supplier who can help you solve care and feeding problems. Then pick a plant from a popular genus group, such as phalaenopsis, cymbidium, or cattleya.

Major orchid houses are located nationwide—and many ship plants and supplies. They include Rod McLellan, South San Francisco (415 871-5655); Orchids by Hausermann, Villa Park, Ill. (708 543-6855); Orchid World, Miami (305 271-0268); and Kensington Orchids, Kensington, Md. (301 933-0036). You can also get information from botanical societies and at orchid shows.

Caring for orchids takes



CATTELYA: UNIQUE TEMPERAMENT AND BEAUTY

more than a green thumb. "It's not like buying petunias for the driveway," cautions veteran hobbyist Peter Maida, an executive at Better Business Bureaus in Arlington, Va. Orchids require specific light and humidity levels and are easily plagued by viruses and insects such as scale and aphids. "I used to joke I was raising aphids and I'm pretty good at it," says Malcolm

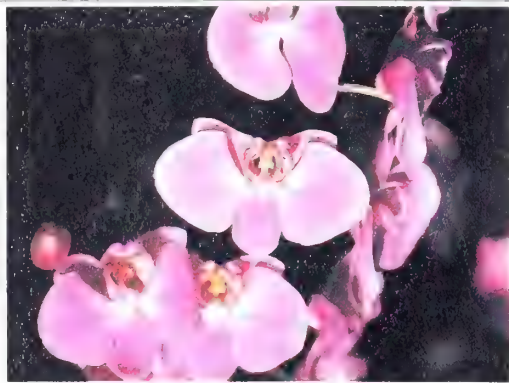
Stamper, retired vice-chairman of Boeing. His solution was a greenhouse that electronically controls climate, watering, and spraying.

While many collections begin with a gift, the hobby can blossom into a major expense. Individual plants range from \$20 to thousands of dollars each for the most exotic varieties.

A \$30 fluorescent light might do at first, but your investment can run into tens of thousands of dollars when your collection outgrows the bathtub and requires a properly appointed greenhouse.

For those not inclined to fuss with climate controls and moisture levels, boarding services charge about \$25 a month to pick up dormant plants and return them at peak bloom a year or so later. Among the hundreds of plants in McLellan's greenhouse "spas" are cattleyas that get moved to a crypt when they're in bloom. **FLOWER ALARM.** The benefits of collecting orchids can be as varied as the blooms. Stamper makes a "sporting game" of keeping a fragrant orchid over the kitchen sink and a half-dozen blooming plants in his hallway.

For one collector, an orchid proved to be a danger sign. Tom Perlite, owner of Golden Gate Orchids in San Francisco, paid a house call on a dendrobium that was inexplicably drooping. After checking for drafts and excess heat, he realized the plant was suffering from exposure to gas. The leak got fixed; both the plant and the owner survived. *Alice Cuneo*



PHALAENOPSIS: AN EXACTING PASSION

Autos

THIS DODGE IS A DAREDEVIL'S DELIGHT

Hit the gas on a Dodge Viper and two things happen: The car leaps forward, howling like a possessed beast, and adrenaline surges into your bloodstream.

That heart-thumping experience is the essence of Chrysler's new \$50,000 sports car. It's a wild-looking machine powered by a brutish V-10 engine and capable of amazing high-speed maneuvers. Chrysler is betting Viper's visceral allure will overshadow the car's many impracticalities.

Gearheads will love the six-speed Viper's high fun quotient. With 400 horses under the hood, it zaps to 60 mph in just 4.5 seconds and tops out at 165 mph. Stopping is equally quick, thanks to huge tires and beefy disk brakes. The Viper darts around corners, sticking solidly to the road. If

you push the cornering limit, look out: When the Viper starts to lose traction, a spin-out is tough to avoid.

The car's wide, low stance

but a detachable, folding cloth top is attractive, too.

While the Viper is mighty seductive, let's be frank: It's an overgrown toy. Chrysler engineers focused on performance and scrimped on everyday amenities. The car even lacks roll-up windows. So if the sky falls, you have to stop and wrestle plexiglas side curtains into place, sliding two tabs into slots on the top of

THE VIPER: ITS V-10 PACKS 400 HORSES



and curvy lines make it a real looker. It drew gawkers at every stop during a three-day test drive in Southern California. The two-seater is designed for open-air touring,

each door. The trunk lid has to be propped open with a steel rod. Also, the car devours gas, getting 16 miles to the gallon on average.

Extended cruising entails

certain compromises, too. A highway speeds, the whoosh of the wind and rumble of the engine drown out conversation and the standard 80-watt stereo. In stop-and-go traffic, engine heat makes the cockpit swelter, even with the top down and ventilation cranked up. That means buyers in hot climates will want to order optional air-conditioning.

NO AIR BAGS. Viper's back-to-basics credo also means it lacks safety features that are standard equipment on other expensive sports cars and are increasingly available on \$13,000 family sedans. Shoulder and lap belts are standard. But there are no air bags or antilock brakes, which would help keep the car steerable even during panic stops on slick pavement.

These latter-day muscle cars go on sale this spring, but with only about 500 1991 models to be built, the first ones will likely command a big premium. If you really must have one, wait a year; you'll probably get a better deal.

David Woodruff

Smart Money

WHEN RISING DIVIDENDS MEAN RISING FORTUNES

ment in Boston and author of the study.

After running other quality screens, Weld found 15 companies that provided just a 1.3% average yield, compared with the Standard & Poor 500's 3%, but that upped dividends by an average of 17.7% annually, almost three times the rate of the S&P 500. Even more tell-

ing, from 1982 to 1991, the companies had an average annual return of 30.29%, compared with S&P's 17.29%.

MORE MATURE. Stocks that made the cut: Abbott Labs, with average annual dividend growth of 19.4% over 10 years; Hershey Foods, which hiked dividends 12.7%; and Johnson & Johnson, where dividends grew 14.2%.

Many investors feel more comfortable with the slow, steady dividend increases of utilities. Many electric-utility, natural-gas, and telephone stocks carry yields of around 7% and hike dividends an average of 3% a year.

These mature companies can pay out a lot of earnings in dividends because they don't need to plow much money back into the business. The typical utility pays out 50% of earnings in dividends. In general, "a payout or a debt-to-equity ratio over 50% is a warning flag," says Geraldine Weiss, editor of *Investment Quality Trends* in La Jolla, Calif.

Her picks include Texas Utilities and Allegheny Power Systems, both yielding above 7%. Texas Utilities has raised its dividend for 44 years, Allegheny for 34. At 88% Allegheny's payout ratio is high, but Weiss says it has sufficient cash flow to cover the dividend.

Some stocks pay for themselves through dividend increases, notes S&P's *The Outlook*. One example is Kansas City Power & Light. The utility's \$23.34 in cumulative dividends since 1982 is 140% of its \$16.63 price back then.

Suzanne Woolley

STAR PERFORMERS

Company	Annual dividend increase	Average annual return (1982-91)
HASBRO	28.57%	48.08%
ABBOTT LABS	19.38	28.76
WALGREEN	16.46	30.69
MEDTRONIC	13.80	27.29
INTERPUBLIC GROUP	13.21	29.60

DATA: FREEDOM CAPITAL MANAGEMENT CORP

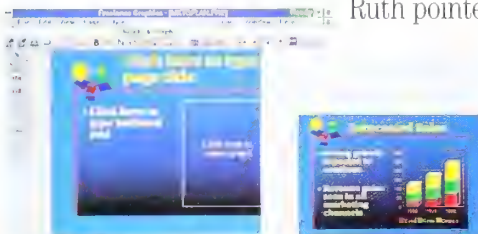
No investor would purchase a stock based solely on its history of paying dividends. But the pace of a stock's dividend increases provides clues that can help investors evaluate a company's prospects. Low-yielding stocks, for example, may look unappealing, but if they also sport rapidly rising dividends, they may produce excellent total returns for patient investors.

One recent study sifted through Value Line's data base of 2,738 stocks to find companies that increased dividends by an average of more than 10% for each of the past 10 years. "That shouldn't be a sole criterium, but it suggests that the company is a growth company and that management is paying attention to shareholders," says Ned Weld, director of research for Freedom Capital Manage-



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Home

SNUG, STYLISH, SPACIOUS—AND ALL LOG

If a log home makes you think of dirt floors and a backyard privy, turn off the late-night Westerns and step into the 20th century. Each year, some 15,000 new owners move into modern log homes erected on costly acreage at such places as Beaver Creek, Colo., or the pristine woods of Vermont. But today's log homes are not merely ski lodges or vacation homes. Many are year-round houses built from kits of pre-cut logs, so desirable that well-heeled customers in Japan and Korea import kits from U.S. manufacturers.

Log homes combine the appeal of natural wood with up-to-date designs and energy efficiency. In such styles as Cape Cod or colonial, they show up in subdivisions or anyplace where fast, economical construction is a goal. A basic kit for a two-bedroom "shell" with 2,000 square feet of living space costs \$20,000 to \$30,000, and it generally takes two to three times that much to finish a home. A 1989 National Association of Home Builders study put the average cost of a log home and the land beneath it at \$98,000.

But big savings can come in



A LOG PILE IN THE HAMPTONS: SOLID WALLS, ROUGHLY EIGHT INCHES THICK, KEEP COLD OUT AND WARMTH IN



chosen. Many families pitch in to help a carpenter or two stack the logs on a foundation to form the walls. Shaved flat on two sides to sit firmly atop one another, the logs are held together by foot-long spikes or interlocking notches.

NEW KENTUCKY HOME. With a lightweight sledgehammer to drive spikes, bank Vice-President Judy Thompson and her steelworker husband, Charles, of Vanceburg, Ky., helped put up their 2,200-square-foot one-bedroom home in three weeks. That was five years ago, she says, adding that log homes are enough of a novelty in the area that "strangers drop by and ask to tour the house."

With its solid wood walls, the Thompsons' home proved so inexpensive to heat electrically that an auxiliary living-room wood stove has turned

out to be merely decorative. Log-home builders debate whether pine, cedar, fir, or other wood insulates best and which is most resistant to decay. Most agree that the denser the wood, the better. Builder Robert Veech, who heads Tree-Core Log Homes in Commack, N. Y., found that after lumber mills spin huge logs in a cutting machine to shave off thin layers for plywood, "they're left with the heart of the log, a dense central core

eight inches in diameter." He devised a way to stack the low-cost cores in eight-foot lengths between wood up-rights, and now sells a kit for a 1,400-square-foot chalet for \$20,000. An extra \$3,000 or so adds a second-floor bedroom or attached garage.

The designation of log homes as "special and unique housing" under strict Fannie Mae mortgage-lending rules can cause financing problems. At First Fidelity Equity, a Greenville (S. C.) broker that has written some 200 log-home loans in the past three years, President Nathan Prewitt headed a drive that recently helped loosen the regulations.

CASE BY CASE. "Previously, to make a loan, you were asked for recent sale prices of one or two comparable log homes nearby," Prewitt says. Figures weren't easy to come by, with log homes still fairly few and far between. The new rules let lenders estimate a home's value on a case-by-case basis.

Most lenders, however, require prospective borrowers to qualify for a loan that covers the cost of the log kit and construction by a contractor—whether or not one is hired. "If you can save money later by helping the contractor, that's fine," says Prewitt. "But some people borrow to buy the kit, planning to do the building themselves. Then they find that carrying and stacking logs is work." That's enough for some modern-day homesteaders to walk away from that unfinished dream cabin in the woods—leaving the lender to foreclose on a pile of logs. *D. D.*



the labor to build the dwelling. Some 150 major manufacturers and nearly twice as many small companies, known as handcrafters, will truck a load of logs to your site. Each log is cut to a specific length to match the design you've

Worth Noting

■ **EASY GIVING.** To help you leave money to a cause, Prudential supplements a life-insurance policy with \$2,500 to \$10,000 worth of low-cost coverage that names a charity as beneficiary. Premiums are tax-deductible if the charity is the policyowner.

■ **PHONE FINANCE.** Financial info is available free on two

new numbers: 800 637-1779 offers an investment-outlook message from Merrill Lynch; 800 945-4237 offers a list of local planners from the International Association for Financial Planning.

■ **SAGE ADVICE.** With new rules for "medigap" insurance, a \$2.95 booklet has tips on what to look for. Order from United Seniors Health Cooperative, 1331 H St., Washington, D. C. 20005.



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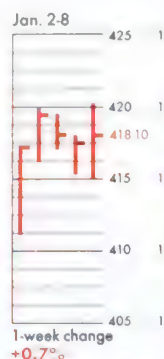
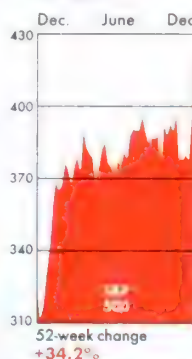
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Investment Figures of the Week

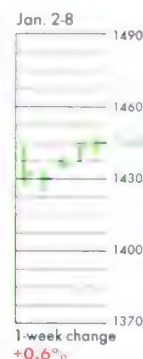
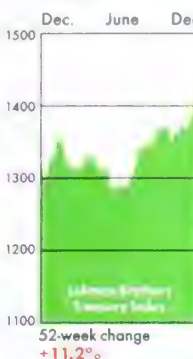
MENTARY

Stock market began the new year by climbing to record levels. Dow Jones industrial average initiated 11 straight days of gains by breaking above 3200 on Jan. 3. Auto manufacturers led the gains as did major retailers, which reported better-than-expected Christmas sales. Profit-taking pushed stocks to lose steam on Jan. 4, except in the over-the-counter market, which rallied strongly in volume. Interest rates continued to decline, boosting the bond market and pummeling precious metals prices.

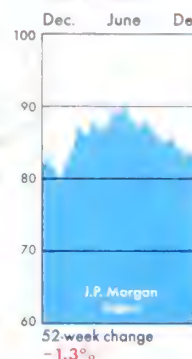
STOCKS



BONDS



THE DOLLAR



MARKET ANALYSIS

STOCKS

	Latest	% change Week	% change 52-week
DOW JONES INDUSTRIALS	3203.9	1.3	29.7
COMPANIES (Russell 1000)	221.8	1.0	36.9
ALL COMPANIES (Russell 2000)	198.1	5.5	56.3
COMPANIES (Russell 3000)	236.1	1.3	37.9

HIGH STOCKS

	Latest	% change Week	% change 52-week
DOW JONES (FINANCIAL TIMES 100)	2467.1	1.9	15.9
DOW JONES (NIKKEI INDEX)	22,715.0	-1.2	-1.1
DOW JONES (TSE COMPOSITE)	3515.6	0.3	10.9

FUNDAMENTALS

	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	3.83%	3.96%	6.4%
30-YEAR TREASURY BOND YIELD	7.40%	7.45%	8.5%
S&P 500 DIVIDEND YIELD	2.98%	3.02%	3.6%
S&P 500 PRICE/EARNINGS RATIO	21.4	23.2	13.2

TECHNICAL INDICATORS

	Latest	Week ago	Reading
S&P 500 26-week moving average	388.4	386.2	Positive
Stocks above 26-week moving average	62.3%	49.5%	Neutral
Speculative sentiment: Put/call ratio	0.29	0.32	Neutral
Insider sentiment: Vickers sell/buy ratio	1.75	1.75	Positive

INDUSTRY GROUPS

4-WEEK LEADERS

	% change 4-week	% change 52-week
MACHINE TOOLS	30.8	17.2
INSURANCE TIME	27.2	53.3
AIRLINES	26.7	38.9
HOMEBUILDING	25.3	89.2
BUILDING MATERIALS	25.2	40.1

4-WEEK LAGGARDS

	% change 4-week	% change 52-week
GOLD MINING	-11.4	-19.9
OIL WELL EQUIPMENT AND SERVICES	-3.8	-7.0
NATURAL GAS DISTRIBUTION	-2.7	-15.8
OIL AND GAS DRILLING	-1.0	-37.2
DOMESTIC OIL	2.0	-14.1

Strongest stock in group

	% change 4-week	% change 52-week	Price
MONARCH MACHINE TOOL	32.3	4.9	10 3/4
BALLY MANUFACTURING	42.9	177.8	6 1/4
UAL	29.6	35.7	151 5/8
KAUFMAN & BROAD HOME	32.4	96.0	18 3/8
USG	44.4	30.0	1 5/8

Weakest stock in group

	% change 4-week	% change 52-week	Price
PLACER DOME	-16.8	-38.3	9 7/8
HALLIBURTON	-10.0	-39.1	26 7/8
ARKLA	-15.5	-39.6	11 5/8
ROWAN	-2.4	-50.6	5 1/8
SANTA FE ENERGY RESOURCES	-22.1	-48.7	7 1/2

MUTUAL FUNDS

LEADERS

	% 4-week total return
PEARSON MULTIPLE OPPORTUNITIES	20.9
FIDELITY SELECT BIOTECHNOLOGY	20.6
STATE BOND COMMON STOCK	18.8

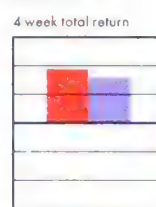
	% 52-week total return
PENNINGTON GLOBAL BIO-TECH	128.8
SM CAPITAL DEVELOPMENT	112.0
AMERICAN HERITAGE	106.6

LAGGARDS

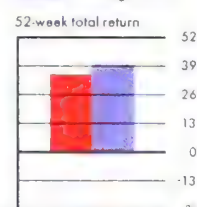
	% 4-week total return
UNITED SERVICES GOLD SHARES	-11.6
STRATEGIC INVESTMENTS	-10.6
STRATEGIC GOLD/MINERALS	-7.8

	% 52-week total return
STRATEGIC GOLD/MINERALS	-25.6
STRATEGIC INVESTMENTS	-20.1
FIDELITY SELECT ENERGY SERVICE	-18.2

S&P 500



Average fund



RELATIVE PORTFOLIOS

Amounts represent the present value of \$10,000 invested one year ago in each portfolio. Percentages indicate daily total returns.

U. S. stocks
\$13,677
+0.54%

Foreign stocks
\$12,412
+3.09%

Treasury bonds
\$11,747
+0.74%

Money market fund
\$10,514
+0.08%

Gold
\$9,035
-1.09%

Data on this page are as of market close Wednesday, Jan. 8, 1992, unless otherwise indicated. Industry groups include S&P 500 companies only; performance and share prices are as of market close.

Jan. 7. Mutual fund returns are as of Jan. 3. Relative portfolios are valued as of Jan. 7. A more detailed explanation of this page is available on request.

THE ASIA AMERICA IS IGNORING

If the 21 CEOs who accompanied President Bush on his trip to Asia had visited Thailand, Indonesia, and Malaysia, they would have found the locals zipping around in Toyotas, snapping up Hitachi appliances, and driving Daihatsu trucks. Yet, although those markets are as open to U.S. goods as they are to Japanese, competing American products are few and far between.

Throughout Southeast Asia, the most dynamic economic region in the world over the past five years, there is a clamor for a greater U.S. role. After all, scores of the region's top economic and business minds have been trained at U.S. universities and companies. And the U.S., unlike Japan, doesn't have to live down the role of occupier during World War II. U.S. electronics giants that have taken non-Japan Asia seriously for decades, such as Motorola and Hewlett-Packard, today enjoy 20% to 30% annual growth there. Even relative latecomers, such as GE, AT&T, and Procter & Gamble, are prospering by catering to Southeast Asia's voracious demand for infrastructure and consumer goods.

These are exceptions, however. U.S. industry is largely letting the Pacific Century pass it by. Detroit's auto makers traditionally have equated going global with being in Europe. A decade ago, impoverished Southeast Asia seemed an economic backwater that never would amount to much. The Big Three also recoiled from the corruption, cumbersome investment codes, and insistence that foreign manufacturers enter joint ventures with local partners. But today, these economies are vastly more open and prosperous. The only carmakers to take advantage of the change are Japanese. Virtually all of the 300,000 cars on Indonesian roads were made by Japanese joint ventures. What's more, such plants throughout Southeast Asia require billions of dollars in parts and machinery, which has enabled the Japanese export boom to roll on despite recession in the West.

The U.S. is right to keep up the pressure on Japan: It will remain a bigger economy than the rest of Asia combined for many years to come. But there is money to be made now in the rest of the region, which is rising fast and is a market the U.S. no longer can afford to ignore. U.S. businesses must demonstrate a willingness to compete. Otherwise, there will be no point in the U.S. government's stepping in to bolster their competitiveness.

A PATIENT VISION AT AT&T

American chief executives constantly are exhorted to invest for the long haul. But when they do—and short-term profits suffer as a result—those same CEOs are flailed as underachievers. That situation could face Robert E. Allen, chairman and CEO of American Telephone

& Telegraph Co. He has been urged to dump AT&T's equipment business and concentrate on its more profitable long-distance operation.

So far, Allen has stuck to his guns. Indeed, with AT&T's \$7.4 billion acquisition of computer maker NCR Corp. last year, he showed that he's more committed to the equipment business than ever (page 56). Allen rightly points out that AT&T is in a position to create a combination of high-tech equipment and communications services that would be uniquely competitive. A decade ago, it seemed that IBM would be able to make the same claim. But its forays in telecommunications were unsuccessful, and it ran into serious trouble in many of its core businesses—a complication that AT&T has been spared.

Allen is right to keep his vision alive. But the critics have a point, too. His vision won't count for much unless AT&T's manufacturing businesses—everything from fiber-optic cables to business-phone systems and computers—can eventually carry more of their own weight. Allen has so far defied his critics and fixed the \$45 billion giant on its two-in-one course. The strategy has enough going for it that we suspect it has a pretty good chance of working.

TURNING BUREAUCRATS INTO ENTREPRENEURS

Want your city to clean the streets and collect your garbage—but with fewer of your tax dollars? Then make the sanitation department compete for the business against private companies, as Phoenix has done. Want your department of motor vehicles to process your license-renewal request faster? Then it might join California in considering a drive-in system that accepts credit cards.

An innovative approach called “entrepreneurial government,” developed by state and local government expert David Osborne, has attracted the attention of several state governors, including Lawton Chiles of Florida, William Weld of Massachusetts, and Ann Richards of Texas (page 66). Their governments are experimenting with his ideas, which are based on the notion that government can deliver better services for less money by adopting a number of modern business techniques, including total quality management, pay for performance, and team management. While conceding that government can't always be run like a business, Osborne believes that government would do well to discover some old business staples, such as customer service and test marketing.

The notion of solving government inefficiency by using motivational techniques—trusting the people who run government programs to make the right decisions, freeing them from restrictive rules, decentralizing authority—runs counter to the orthodoxy of the Reagan years that there is no such thing as a good bureaucrat. But, if combined with accountability for poor performance and rewards for good, entrepreneurial government seems to us a sensible idea. The experiments of Governors Chiles, Weld, and Richards will be worth watching.

Business Week
January 27

BusinessWeek

JANUARY 27, 1992 A McGRAW-HILL PUBLICATION \$2.50

American Keiretsu

LEARNING FROM JAPAN

Japan's system of corporate cooperation has long bedeviled U.S. rivals. Now, some American companies are trying something similar. Will it pay off?

PAGE 52



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Hitachi's Visualization System simulates the invisible.*

Imagine trying to capture the image of a golf ball, 1/6000th of a second after being struck. With the help of a Hitachi supercomputer and a Hitachi HDTV (High-Definition Television) display, a superior system has been created to allow a simulated vision to be viewed with incredible resolution and clarity.

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Meanwhile, a little closer to home, Hitachi's 8mm video camera gives you the opportunity

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sion. And at a width of just 2.3 inches this,
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ates color, sets exposure levels and focuses,
you concentrate on a, more times than not,
ng target.

uch varied technologies are a good
ple of how Hitachi's 16,000-strong research
development department is constantly

working toward bringing the world a vision of
the future.

For more information about Hitachi 8mm video cameras,
call toll-free 1-800-HITACHI. (Applicable within U.S. only)

HITACHI

A large, orange, mechanical arm, resembling a giant paper shredder or a crushing machine, is shown in the process of crushing a large, white, rectangular object that looks like a document or a folder. The arm is positioned diagonally across the frame, with its large, circular crushing head at the bottom right. The white object is being pushed into the head, and a large plume of white dust or smoke is being ejected from the opening. The background is a dark, industrial setting with some structures and lights visible.

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ON THE MARKETPLACE.

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we use our market leadership to help anyone who can use it. Anyone.

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It's not a new concept.

It's not something we invented.

It's simply something we do.



The Past, Present, and Future of
Network Computing.



AMERICAN *KEIRETSU*: BUSINESS IS STARTING TO THINK THAT LESS RIVALRY AND MORE SHARED RISKS MAY BE THE KEY TO GLOBAL SUCCESS

Cover Story

52 LEARNING FROM JAPAN

One key to Japan Inc.'s success is its system of *keiretsu*: huge combines of manufacturers, suppliers, affiliates—even banks and insurers. Cooperation is the watchword, and low-cost capital is always available. Now, a few U. S. giants—IBM and Ford among them—are trying to create more modest but homegrown *keiretsu*. Will they succeed?

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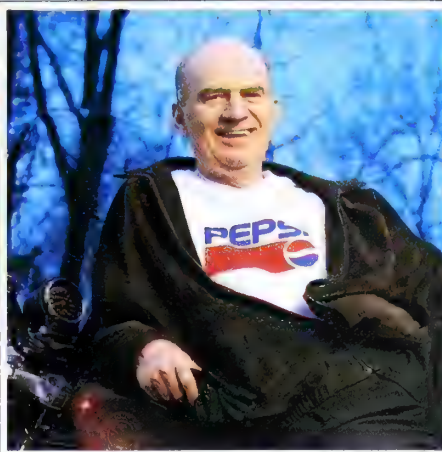
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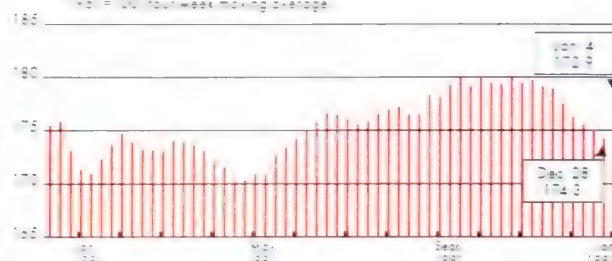
When free trade costs too much
Keiretsu, American-style

BusinessWeek Index

PRODUCTION

Change from last week: +0.8%
Change from last year: -0.9%

1992=100 (four-week moving average)

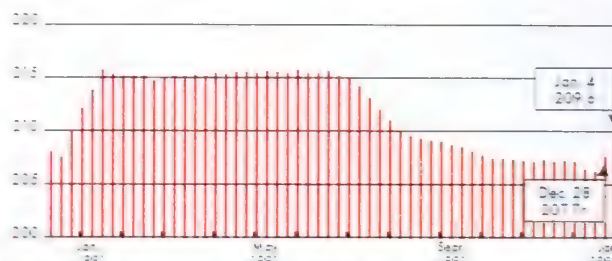


The production index dropped during the week ended Jan. 4. Auto and truck plants resumed production after weeklong shutdowns for Christmas, and total electric power, freight traffic, and lumber output increased. Steel production was down. While studies refining output was unchanged. Data for paper and paperboards were unavailable. Before calculation of the four-week moving average, the index increased to 105.0 from 104.9.

BW production index copyright 1992 by McGraw-Hill Inc.

LEADING

Change from last week: 0.9%
Change from last year: +1.2%



The leading index posted a large gain for the week ended Jan. 4, as the stock market rally and lower interest rates combined to signal better economic growth ahead. In the latest week, higher stock prices, lower bond yields, and improved growth in materials prices offset a slowdown in M2. The growth in real estate loans was unchanged, and data for business failures were unavailable. Before calculation of the four-week moving average, the index increased to 104.9 from 104.8.

Leading index copyright 1992 by Center for International Business Cycle Research

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
STEEL (100 millions of tons)	79.6	77.7	+0.9
AUTOS (1/11 units)	82,520	26,032	+3.5
TRUCKS (1/11 units)	38,239	13,662	+6.8
ELECTRIC POWER (1/11 millions of kilowatt-hours)	56,097	52,990	+3.9
CRUDE-OIL REFINING (100 millions of barrels)	13,092	13,243	-1.0
COAL (100 millions of tons)	15,027	13,096	+4.3
PAPERBOARD (100 millions of tons)	N/A	749.1	N/A
PAPER (100 millions of tons)	N/A	717.0	N/A
LUMBER (100 millions of ft)	26.8	27.6	-0.1
RAIL FREIGHT (100 millions of ton-miles)	16.7	14.1	+18.6

Sources: American Iron & Steel Institute, Ward's Automotive Reading, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Paper Institute, WIRA, SPPA, Association of American Railroads.

FOREIGN EXCHANGE

	Latest week	Week ago	% Change year ago
JAPANESE YEN (\$)	1.08	1.08	+0.4
GERMAN MARK (\$)	1.60	1.51	+1.8
BRITISH POUND (\$)	1.75	1.67	+1.9
FRENCH FRANC (\$)	5.53	5.17	+5.1
CANADIAN DOLLAR (\$)	1.15	1.14	+1.0
SWISS FRANC (\$)	4.4	4.05	+1.8
MEXICAN PESO (\$)	8.048	8.051	-0.03

Sources: Japan Bank, Tokyo Bank, Commodity Research Bureau, S. Dallas, exception for Japan bank's exception for Japan bank.

PRICES

	Latest week	Week ago	% Change year ago
GOLD (\$/ounce)	368.80	360.00	+1.8
STEEL SCRAP (1/4 in. heavy, 1 ton)	93.00	94.00	-1.2
FOODSTUFFS (100 index, 1992=100)	202.4	201.2	+1.7
COPPER (1/4 in. heavy, 1 ton)	98.8	100.0	-1.2
ALUMINUM (1/4 in. heavy, 1 ton)	51.8	51.8	-2.1
WHEAT (1/2 bushel, 1 ton)	4.17	4.20	-0.6
COTTON (100 lb. upland, 1 ton)	50.06	50.79	-2.1

Sources: London Metal Exchange, Chicago Metal, Commodity Research Bureau, Metal Weekly, Kansas City Market, Memphis Market.

LEADING INDICATORS

	Latest week	Week ago	% Change year ago
STOCK PRICES (1/10 S&P 500)	417.23	417.20	+3.2
CORPORATE BOND YIELD, Avg (1/10)	8.14%	8.17%	-0.1
INDUSTRIAL MATERIALS PRICES (1/10)	93.3	93.4	-0.4
BUSINESS FAILURES (1/3)	N/A	229	N/A
REAL ESTATE LOANS (1/11 billions)	\$403.0	\$403.0	+1.2
MONEY SUPPLY, M2 (12/30 billions)	\$3,400.8	\$3,409.3	-2.2
INITIAL CLAIMS, UNEMPLOYMENT (12/28) Indus.	468	438	+3.0

Sources: Standard & Poor's, Moody's, Bureau of Commerce, Index 1982=100, Dun & Bradstreet, Bureau of large companies, Federal Reserve Board, Labor Dept., BCR seasonally adjusted business failures and real estate loans.

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Change year ago
EMPLOYMENT, CIVILIAN (Dec.) millions	116.7	116.8	-0.6
UNEMPLOYMENT RATE, CIVILIAN (Dec.)	7.1%	6.9%	+1.4
RETAIL SALES (Dec.) billions	\$161.2	\$161.7	-0.7
PRODUCER PRICE INDEX (Dec.) finished goods	122.2	122.5	-0.1

Sources: BLS, Census Bureau.

MONETARY INDICATORS

	Latest week	Week ago	% Change year ago
MONEY SUPPLY, M1 (12/30)	\$895.9	\$896.5	-7.6
BANKS' BUSINESS LOANS (1/1)	293.7	294.2	-8.9
FREE RESERVES (1/8)	6.86	7.084	-80.7
NONFINANCIAL COMMERCIAL PAPER (1/1)	124.5	131.6	-11.1

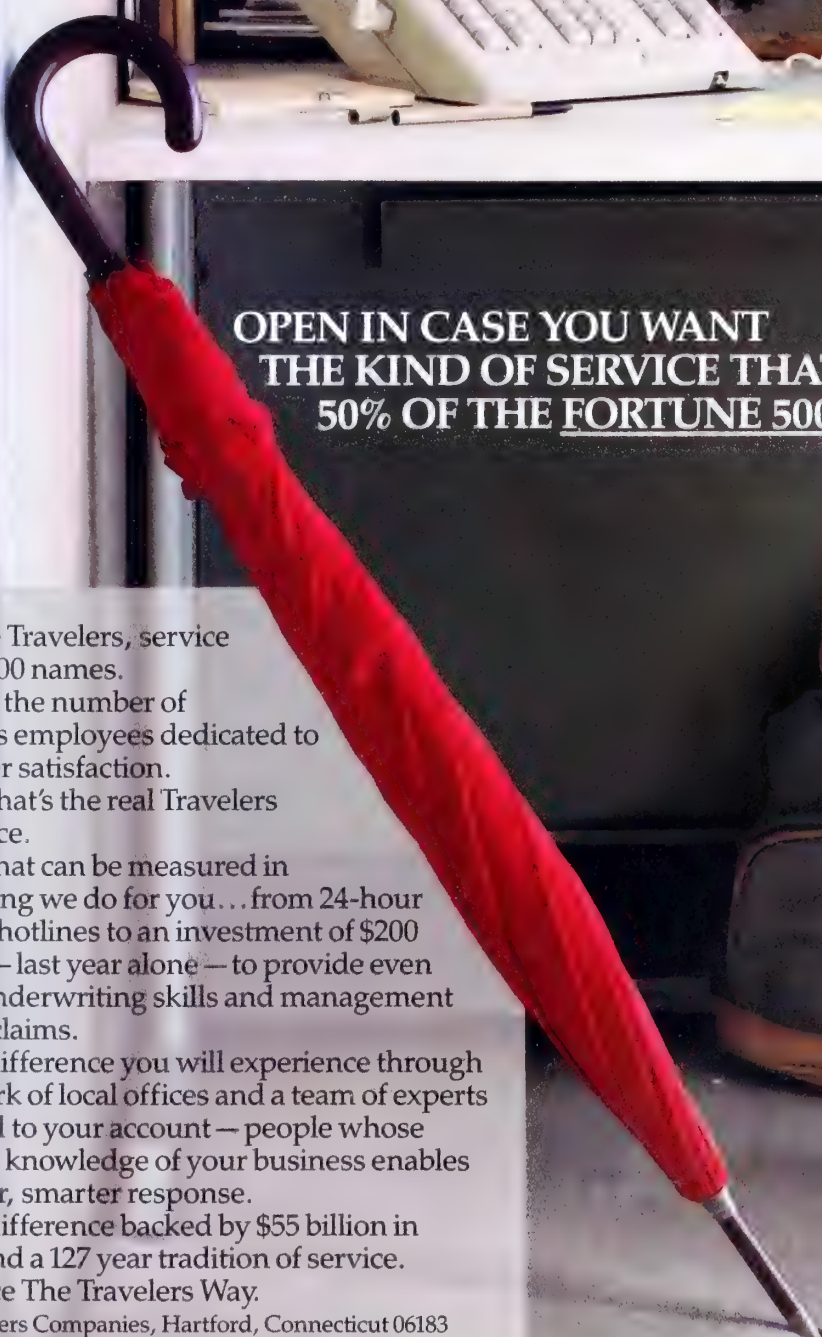
Sources: Federal Reserve Board, in billions, except for free reserves, which are expressed for two-week period in millions.

MONEY MARKET RATES

	Latest week	Week ago	Year ago
FEDERAL FUNDS (1/14)	3.95%	3.67%	6.77%
PRIME (1/1)	6.50	6.50	7.00
COMMERCIAL PAPER 3-MONTH (1/14)	4.07	4.06	7.05
CERTIFICATES OF DEPOSIT 3-MONTH (1/15)	4.13	3.94	7.38
EURODOLLAR 3-MONTH (1/1)	3.95	4.15	7.39

Sources: Federal Reserve Board, First Boston.

*Row, and in the production indicators are seasonally adjusted in computing the BW index (other components estimated and not listed). Include machinery and defense equipment. **Seasonal Adjusted. ***Southern Forest Products Assn. ****Free market value. N/A Not available. N/A Not available. N/A Not available.

A red umbrella with a dark handle leans against a white desk. The desk holds a multi-line office phone, a pen holder with various pens and scissors, and a computer keyboard. In the background, there are stacks of papers and a computer monitor. The umbrella's tip rests on the floor near an office chair.

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1.

1. "Zerodur" from Schott it does not expand one iota, even when subjected to temperatures of 1,500°F

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ture left off.



1. "Zerodur": zero expansion.
2. Pumice: floats on water.
3. Tourmaline: produces electricity.
4. Serpentine: heat resistant.
5. Beryl: once used to make eyeglass lenses.
6. Heulandite: a molecular sieve.
7. Azurite: traditional pigment.
8. Graphite: extremely soft form of carbon.
9. Diamond: the hardest mineral, another form of carbon.
10. Granite: the hardest stone.
11. Magnetite: a natural magnet.
12. Grossularite: highly symmetrical crystals.
13. Mica: composed of thin, heat resistant layers.
14. Autunite: fluoresces under ultraviolet light.
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16. Natural glass.
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GIVE CABLE TV A DOSE OF COMPETITION—NOW

Let me applaud your commentary "Cable TV: For a better picture, try competition" (Media, Dec. 23). The article correctly pointed out that re-regulation of the cable-TV industry is, at best, an interim solution to the problem plaguing cable customers. The best long-term solution is full competition from the nation's telephone companies.

The means for ending the current barrier to competition are at hand in several proposals before Congress. All of them recognize that lifting the telephone company-cable TV cross-ownership ban restrictions would accelerate this country's transition to a broadband, fiber-optic network.

What you did not mention is that this solution—full competition for video services—offers other benefits as well. In addition to the impact on entertainment video, competition from telephone companies would stimulate the widespread use of advanced video services for education and health care that are available today only on a limited basis over private networks.

Development of other types of beneficial consumer services over the public, broadband network would follow and increase America's ability to compete with other nations also pursuing this advanced technology.

Congress must now rise to the challenge of setting a national telecommunications policy that will remove the artificial distinctions among voice, data, and video information. It is time to set the stage for a competitive marketplace where the consumer is the ultimate winner.

J. L. Johnson
 Chairman and CEO
 GTE Corp.
 Stamford, Conn.

SCORPIOS IN THE CORNER OFFICE

It is interesting to note that birthdays of CEOs heading enterprises with recent revenues of \$5 billion or more ("Tough times, tough bosses." The Cor-

BusinessWeek
 JANUARY 27, 1992 ***3249
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CLARIFICATION

In a story on Gannett Co. (Media, Dec. 16), we referred to "troubles" at Dow Jones & Co.'s Telerate subsidiary. Telerate's earnings plunged in 1990, and it required a write-off in 1991. But according to Dow Jones, Telerate's operating earnings gained 20% in 1991.

porate Elite, Nov. 25) reveal that Scorpios are far ahead of the pack. They account for 15.9% of the executives. Somewhat surprisingly, Leos are the lowest, with only 4.9% of them holding the top jobs. The remaining 10 signs show no major deviation from the annual birth distribution.

V. A. Breindl
 Seattle

T.J. RODGERS: BIT PLAYER OR 'SUPERMAN'?

It surprises me you would lend credibility to the nonsense being spouted by T. J. Rodgers in "The bad boy of Silicon Valley" (Cover Story, Dec. 9). His solution to competing with the Japanese is: Don't. Instead, he advocates playing the minor leagues and being prepared to learn a new sport if the Japanese decide to field a team in your league!

If Mr. Rodgers should ever decide to play the major leagues, he is sure to find out who God really is!

Ian McFall
 San Francisco

I don't understand why you called him the "bad boy of Silicon Valley," but he's an outstanding example of a high-tech manager in a fast and fiercely competitive world of chipmaking. He's really out to save the U. S. from the downgraded status of leader in technology.

Instead, you should have called him a "superman."

Dan Solcher
 Lubbock, Tex.

Letters to the Editor should be sent to Readers Report, BusinessWeek, 1221 Avenue of the Americas, New York, N. Y. 10020. Fax: (212) 512-4464, Telex: 12-7960, Intl. 4998204. All letters must include an address and daytime and evening telephone numbers. We reserve the right to edit letters for clarity and space.

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SHORT-TERM AMERICA: THE CAUSES AND CURES OF OUR BUSINESS MYOPIA

By Michael T. Jacobs

Harvard Business School Press • 268pp • \$24.95

NEARSIGHTED MANAGEMENT AND HOW TO FIX IT

It is a truth, just about universally acknowledged, that American managers are shortsighted—reluctant to make investments that won't pay off anytime soon. Executives say it's not their fault: They have learned that if they don't produce steady, stair-step increases in profits, investors sell out, raising the specter of takeover. Some pundits blame the cost of capital in the U.S., which historically has been higher than in Japan or Germany. A few even cite the American character, addicted to immediate rewards, as the culprit.

But rarely has anyone really examined why and how the U.S. got into a predicament that crimps its competitiveness and, ultimately, its ability to create wealth. So, while everyone complains about the situation, no one suggests any workable solutions. Most proposals

that have been advanced—taxing stock trades, lowering the capital-gains tax, shifting from quarterly to semiannual financial reports—are Band-Aid measures. Perhaps solving the problem must begin with a better understanding of it.

Thank goodness, then, for *Short-Term America* by Michael T. Jacobs, who was hired by the Treasury Dept. in 1989 to devise cures for business' myopia. The book explains why the rational behavior of U.S. executives, investors, and financial institutions produces such destructive results. Little of what Jacobs writes is new; indeed, some is very familiar. But he breaks ground with his holistic analysis: He shows how U.S. business practices, laws, and regulations inevitably lead to impatient capital. The cure, he argues, lies in changing the relationship between the investors and fi-

nancial institutions that provide capital and the managers who use it.

Along the way, Jacobs—who grew frustrated with the Treasury's own inaction and left to write this book—outlines some of the American financial system's perverse consequences. For example, because U.S. corporations can take tax deductions for interest but not dividends, the tax system—unlike Japan's and Germany's—is biased toward debt financing. Yet American companies favor equity over debt, even though it raises their capital costs—and the needed payoff. Why? Because, Jacobs shows, the risks of borrowing are higher in the U.S.

Since American banks can't own equity in nonfinancial companies or underwrite securities, they have less clout and more distant relationships with borrowers than do their foreign counterparts. Companies widen the gap by avoiding banks and raising capital in the commercial paper, bond, and private-placement markets. And banks exacerbate it by securitizing loans—bundling them and selling them to third parties. The result: In times of trouble, banks are less willing to renegotiate debt schedules and extend new loans. And they often lard loan documents with covenants that restrict

O o o o b,



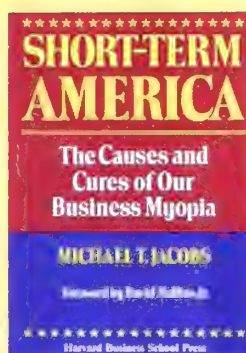
PHOTO COURTESY OF HARVARD BUSINESS SCHOOL PRESS

company's flexibility. The goings-on in the stock market are no better. Jacobs sketches how, over the years, management has insulated itself from shareholders. The government contributed by writing regulations that discourage and may penalize such institutions as pension funds for trying to influence management. No wonder shareholders sell out if performance is lacking. Hanging on to stocks in hopes of increasing managerial accountability is futile," writes Jacobs.

Instead of being supportive, relations between investors and managers often are adversarial. Since that raises risk, investors want to be compensated. Jacobs likens the problem to contentious labor-management relations: "When workers do not trust management, they demand rigid work rules, which raise labor costs. When owners do not trust management, they demand higher returns, which raise capital costs."

Unfortunately, the '80s takeover boom further strained relations between capi-

Jacobs' holistic analysis shows how U.S. laws, practices, and regulations lead to impatient capital



tal providers and capital users. Aided by lawyers and state legislators, managers erected even more barriers that make it tougher for shareholders to act like owners and that make takeovers less likely. With a corporate governance system that Jacobs calls "dysfunctional," relations are in a downward spiral, ever boosting the cost of equity.

Jacobs believes the U.S. system needs an overhaul. He would allow banks to underwrite securities, own stock, and operate nationwide—limiting taxpayer ex-

posure by making banks segregate insured deposits and place them in safe securities. He would rewrite proxy rules to allow shareholders to talk among themselves and to give them more power to change boards of directors. And without suggesting how to make it happen, he calls for investment firms to take bigger, more informed stakes in fewer companies. "By combining a meaningful ownership stake with active involvement, these firms would provide the accountability

that is so visibly absent from our present financial system," he writes.

Although Jacobs' prose is clear, *Short-Term America* is often preachy, even pedantic. And the involved examples he sometimes uses are tough going. But the book's insights more than compensate. Understanding the structural nature of America's shortsightedness is surely the first step toward its cure.

BY JUDITH H. DOBRZYNSKI

Senior Editor Dobzynski writes frequently about corporate governance.

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IS THIS A SLOWDOWN —OR A SEA CHANGE?

BY PAUL CRAIG ROBERTS



A case can be made that this isn't a recession at all, but a contraction brought on by overtaxation and overregulation—policies that are moving the economy to a permanent path of lower growth

PAUL CRAIG ROBERTS IS CHAIRMAN OF THE INSTITUTE FOR POLITICAL ECONOMY IN WASHINGTON

A recovery may be waiting in the wings, but it's too shy to step onto the stage. And for good reason: This could be the most overforecast recovery since the one that didn't arrive in the 1930s. The Bush Administration and "blue-chip" forecasters have been expecting the recovery since the victorious conclusion of the brief Persian Gulf war, and 1991 ended with the stock market staging a second runup predicting recovery—investors reasoning that economic news was so bad it could only get better.

Experts can't figure out why the normal recession cycle of working down inventories of goods and consumer installment debt is taking so long. Perhaps they are wrong in trying to understand this slowdown as a recession. A case can be made that the economy is undergoing something quite different: a policy-induced fixed-investment contraction that is moving the economy to a lower growth path.

In the days before Keynesians and monetarists, business-cycle theorists stressed the natural tendency of economies to overinvest in fixed assets financed with debt. They held that overinvestment leads to excess capacity that must gradually be worked off. As earnings drop, associated defaults impair the collateral and capital of the financial system.

Arguably, a similar but worse effect has been caused by our current policymakers. The desired stock of capital has been reduced by the tax and regulatory increases of recent years. Instead of undergoing an inventory correction, the economy is making an adjustment to a permanently lower growth path. After the adjustment to the less favorable tax and regulatory climate is completed, the economy will resume growth, but along a lower path that reflects the higher cost of capital.

NEW LIABILITIES. Without doubt, the 1986 Tax Reform Act reduced the profitability of real fixed business investment. This is most easily seen in commercial real estate, where large changes in depreciation, deductions, and capital-gains taxation smashed the value of properties. In an exuberant economy that had already overinvested in real estate assets, the tax reform greatly magnified the contractionary effect.

The large-scale destruction of real estate and financial-institution wealth, which has caused so many savings-and-loan associations and banks to go bust at enormous cost to the taxpayer, has amplified the investment contraction. Financial institutions, under pressure by regulators, have switched to an archconservative lending mode, thus making it harder to finance any investment.

Just as hikes in federal taxes mimic the ef-

fects of overinvestment on profits, so do increases in regulation and state and local taxes. The Bush Administration has so massively added to regulatory costs with clean-air, disability, and civil rights acts that the *National Journal* has labeled Bush "the Regulatory President." The billions of dollars that businesses must invest to comply with new regulations add nothing to their profits, thus lowering return on investment. Constant increases in property, income, and excise taxes at state and local levels, together with the explosion in tort liability and growing legal unpredictability, have also reduced the earnings of business' fixed investments. The 1991 Civil Rights Act added enormous legal liabilities to employment, reducing the expected earnings of business capital.

PLUMMETING CONFIDENCE. If the economy is undergoing a policy-induced fixed-investment contraction, the usual antirecessionary policies designed to boost consumer spending could be ineffectual or counterproductive. Higher consumer demand alone won't make businesses profitable if taxes and regulations have killed the rate of return on investment; it will just drive up prices as it did in the 1970s. Lower interest rates can boost the cash flow of business and households and reduce loan-default rates, but they cannot offset the depressing effect on earnings of higher taxes, regulation, and lawsuits.

Fortunately for the inflation rate, many of the actions contemplated by policymakers to stimulate consumer demand, such as middle-class tax rebates, will have only negligible effect on the economy. Years ago, Milton Friedman postulated that consumer-spending patterns reflect permanent income only, and economists have found that temporary tax changes, such as the 1968 surtax and 1975 tax rebate, have had little effect on consumption.

There is, nevertheless, a danger in policymakers' misunderstanding the economy's woes. When antirecessionary policies designed to boost demand have no effect, confidence could plummet further. On the other hand, an irrefutable demonstration of the impotence of government policy might puncture the faith in big government that has plagued our culture since the 1930s.

If policymakers are unhappy with the economy's movement to a lower growth path, they will have to reverse their own handiwork—the tax and regulatory changes that have made it impossible to sustain the growth path of the 1980s. Measures aimed at boosting demand cannot offset the government policies that are pushing the economy down to a lower growth path.

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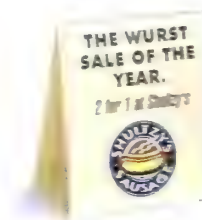
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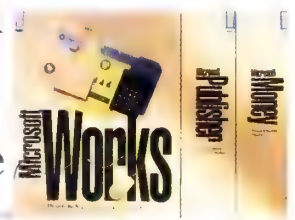
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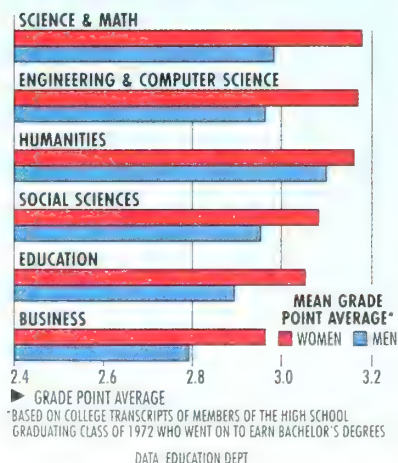
BY GENE KORETZ

AMERICA'S NEGLECTED WEAPON: ITS EDUCATED WOMEN

Economic observers have long bewailed the lagging educational achievements of American youth, warning that the nation's competitiveness and standard of living will gradually decline as better-educated work forces overseas eclipse the performance of U.S. workers. A recent study by Education Dept. researcher Clifford Adelman, however, argues that such dire predictions neglect the potential contribution of a key segment of the population. By analyzing the post-high-school educational and work experiences of the high school class of 1972, the study, entitled *Women*

A FEMALE EDGE IN COLLEGE PERFORMANCE

MAJOR FIELD OF STUDY:



at *Thirtysomething*, provides telling evidence that women are a critical, underutilized resource in the economy.

The study's main emphasis is women's consistently superior academic performance, starting with high school. "No matter how one slices the high school class of 1972," notes Adelman, "whether one looks only at blacks or whites or Hispanics, or at high or low socioeconomic backgrounds, women's average class rank exceeds that of men."

Women also excelled in college. Although as many women as men went directly on to college, women were more likely to win scholarships and to earn degrees rapidly. And while women tended to major in different fields than men, their average grades were higher no matter what field they studied (chart).

The study also notes that college

women's attitudes toward education grew more positive. The percentage aspiring to graduate degrees rose sharply, and more women than men continued their educations after the age of 30, with many moving into such fields as accounting and computer science.

The problem, notes Adelman, is that women's superior educational performance and commitment was not rewarded in the labor market. The study found that women at all educational levels tended to experience more unemployment than men, even if they were childless. And by the time they were in their early 30s, women were able to achieve pay equity with men in only 7 of 33 major occupations—and in five others if they had earned more than eight credits in college-level mathematics.

The surprising thing is that women's spirits remain high. Despite a pervasive pattern of lower pay and less chances for advancement, the study found that more women than men felt their educations were useful in their work. And they tended to be more satisfied with working conditions, job relationships, and the chance to develop new skills.

"U.S. women, of all races," observes Adelman, "are the best educated and trained in the world." They already make up more than half of all enrollees and degree recipients at all levels of higher education except the doctorate—compared to only 34% of college entrants in Japan and 42% to 45% in major European countries.

The challenge, says Adelman, is to utilize women's enthusiasm and education productively and to reward them equitably. "If we can do that, America's standard of living can continue to grow."

IT'LL TAKE MORE THAN RATE CUTS TO REV UP AUTO SALES

Although auto loan interest rates have declined 1.6 percentage points in just two months, economist Richard Berner of Salomon Brothers Inc. thinks far heftier rate cuts will be needed to get car sales moving. For one thing, he notes that because of the elimination of interest deductibility, the aftertax cost of borrowing to finance an auto is no lower than it was during much of the 1980s. At the same time, car prices have risen sharply over the past decade, because of an increasing array of options and mandated quality improvements.

Perhaps most important, continued weak job and income growth and uncertainty about employment prospects are keeping a lid on demand, as is the

likelihood that many car owners who took out five-year loans several years ago are stuck with trade-in values that are lower than their loan balances. "The steady improvement in vehicle quality," adds Berner, "is allowing a lot of drivers to hang on to their cars longer."

WHY UNEMPLOYMENT HAS THE REPUBLICANS SO NERVOUS

To understand the Republicans' growing concern with "jobs, jobs, jobs," consider the following election-year calculus: The drop in employment rolls in the bellwether state of New Hampshire in the past two years is the largest in percentage terms since the late 1940s. And the weighted unemployment rate of the 11 largest states now stands at 7.7%, the highest of the recession.

Economist David Resler of Nomura Securities International Inc. notes that "a Presidential candidate needs to carry only these 11 states, plus any two others, to win the election."

JUST HOW EXCESSIVE ARE THE PAY SCALES OF U.S. CEOs?

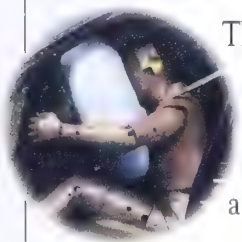
To many observers, the salaries of U.S. top corporate executives seem wildly excessive—especially when measured against the differentials between top and average pay levels that exist in foreign companies. But Ira Kay of management consultants Hay Group argues that such negative comparisons are not entirely justified.

"CEO pay, unlike the pay for lower-level employees, is largely pegged to the size of the organization," explains Kay. "The larger the company, the bigger and more complex the job." Thus, because the U.S. has far more multibillion-dollar corporations than other countries, it has more high-paid CEOs.

To prove his point, Kay cites Hay data on international pay levels (annual salary plus bonus) for chief executive officers of companies with revenues between \$500 million and \$800 million. For the U.S., CEOs of such companies enjoy average pay levels that are 13.6 times those of entry-level professionals. For Italy, Germany, Britain, and Japan, such pay multiples are comparable, ranging from 12.1 to 13.1. Kay concedes, however, that his data don't include long-term incentives, which play a big part in U.S. executive compensation but are negligible in countries like Japan.



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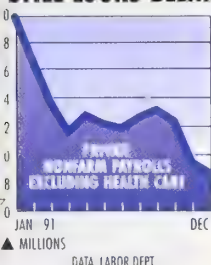
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WILL THE FED LOWER RATES AGAIN SOON? IT MAY HAVE NO CHOICE

Federal Reserve Board Chairman Alan Greenspan strongly hinted in his Jan. 10 testimony that the Fed was leaving the door open for another easing of monetary policy. With the economy hobbling into the New Year, it may not take long for the central bank to slip another cut in interest rates through the door.

WHERE EMPLOYMENT STILL LOOKS BLEAK



The December data make it evident that the economy needs more help. Consumers are caught in a downward spiral of weak job markets, sagging confidence, negligible income growth, and the resultant restraint on spending. A sustainable recovery is impossible until consumers can break out of this vicious cycle.

Except for the unrelenting gains in health care jobs and a fluky jump in government payrolls, employment is falling. And the yearend numbers on retail sales confirm that the holiday shopping season was a disaster that left retailers and wholesalers awash in a sea of their own inventories.

After the Fed's aggressive easing on Dec. 20, Greenspan suggested that he would like to wait and judge the adequacy of the monetary stimulus already in the pipeline before cutting rates again. But with the New Year off to such a poor start, he may not get the chance. In early January, commodity prices sank to a four-year low, the M2 money supply sagged anew, and car sales were terrible. Worse yet, new claims for jobless benefits are on an uptrend.

THE JOBS JUST AREN'T THERE

Nothing says more about the decrepit state of the economy than the labor markets. Through December, employment conditions were not improving. Nonfarm industries added 31,000 workers last month. On a base of 108.8 million jobs, that's essentially no growth.

Only 47.2% of the 356 industries surveyed in December added workers. That figure has been below 50% since October, a sign that most industries are either holding the line on payrolls or laying off workers.

Indeed, excluding the health care industry, private businesses shed 80,000 jobs in December, and companies have been cutting payrolls since September (chart). Health care, which accounts for less than 8% of all nonfarm employment, added 45,000 new jobs in December. Government payrolls rose by an improbable 66,000.

Given the strains on state and local governments, that's clearly a quirk in the Labor Dept.'s seasonal adjustment.

Making matters worse, the November drop in payrolls turned out to be 24,000 larger than originally reported. Labor now puts the decline at 265,000. Since April, 1991, when the recession was thought to have ended, employment has risen by an average of 13,000 jobs a month. The average monthly increase during the first eight months of past recoveries was more than 150,000.

The lack of job growth pushed the unemployment rate in December to 7.1%—the highest in 5½ years. That could further erode consumer confidence. Moreover, the jobless rate may well move higher in January, given the rising trend in new jobless claims.

Manufacturers continued to slash payrolls in December. They cut 32,000 jobs, about the same as in the three preceding months, shrinking factory employment to an 8½-year low. The factory workweek rose by six minutes, to 41.1 hours, but the combination suggests that industrial production in December posted little, if any, growth.

The rise in the workweek, to the longest since April, 1989, would normally be a favorable sign of future gains in output. However, with sales of consumer goods weakening at yearend, and with inventories of consumer items on the rise, the outlook for factory orders and production this winter is not bright.

CASH REGISTERS STAND SILENT

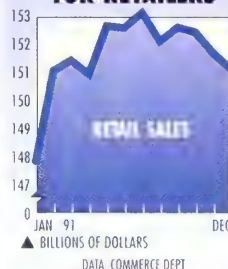
The sad state of the labor markets killed any chance for a successful holiday shopping season. Skittish about their job prospects, consumers sat this Christmas out.

The Commerce Dept. reported that retail sales fell by 0.4% in December, on top of a sharp reversal in the November data. Sales in that month dropped 0.5%, instead of rising 0.3% as first reported. Downward revisions in the November numbers were widespread, but sales at car dealerships and clothing stores saw swings that exceeded a full percentage point.

Retail sales now stand at their lowest level since April (chart). And initial reports for January show more sluggishness. Sales of domestically made new cars dropped to an annual rate of 5.3 million for the first 10 days of the month. That's even lower than the poor 5.9 million pace for all of December.

But other retailers are hurting as well. Nonauto retail

A BLUE CHRISTMAS FOR RETAILERS



Business Outlook

sales slipped 0.2% in December, the fifth consecutive decline. Department stores, which are dependent on the holiday shopping season, saw sales drop a steep 2.2% last month. And receipts at clothing stores fell 0.7%.

Some of the decline reflects deep discounting, but sales volume suffered as well. Real retail sales fell last quarter at an estimated annual rate of 3%, a drop that is sure to be a considerable drag on fourth-quarter economic growth.

Because of rising unemployment and tight household budgets, consumers have little extra cash at a time when credit-card use is on the wane as well. Consumer credit grew by a tiny \$27 million in November. Households have pared down their level of installment debt outstanding to 17.2% of disposable income, from 17.8% a year earlier. The increased emphasis on paying down existing debt—while good for the economy in the long run—will restrain retail sales over the next few months.

For all of 1991, the 0.7% gain in retail sales was the lowest yearly increase since the government began keeping records in 1970. The dismal Christmas season means that many retail chains will report disappointing fourth-quarter profits, while others are having problems paying their suppliers (page 28).

The poor sales performance also appears to have left retailers with an overhang of inventories. In November, inventories held by manufacturers, wholesalers, and retailers rose 0.2%.

All of the increase was at retailers and wholesalers. Since June, retail stockpiles are up 3%, but sales have fallen 0.6%. Inventories of nondurable retail goods are clearly excessive: The ratio of stock levels to sales jumped to a record high in November.

The buildup in inventories will mean more problems

for the factory sector. With so many goods on hand, retailers won't be ordering much this quarter. And with little demand for their goods, producers will not be able to raise prices by much in the coming months.

THE SILVER LINING: INFLATION IS TAME

Inflation is still the best part of the outlook. Weak demand and slower growth in wage costs are restraining price hikes at both the producer and consumer levels.

Producer prices are exceptionally tame (chart). Prices of finished goods fell 0.2% in December. For the year, they dipped for the first time since 1986—and for the same reason: falling energy prices. Oil prices are down some \$5 a barrel since early November, and further declines could be in store for 1992, as supply from Kuwait and perhaps Iraq returns to an oil market facing weak demand from the global economic slowdown.

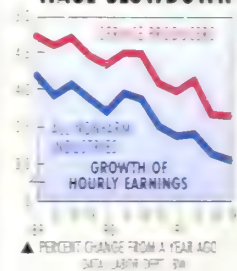
Slower wage growth is another big plus for the inflation outlook. Although hourly wages jumped a steep 0.7% in December, they rose at an annual rate of only 2.1% in the fourth quarter, the smallest quarterly rise in nearly four years. During the past year, hourly earnings have grown 3.1%, and wage growth in private-sector services has fallen to 3.6%, down about a percentage point from the pace of two years ago (chart).

Such sterling inflation prospects will make it easy for the Fed to shoot down interest rates when the opportunity presents itself. That's not likely to come before the next employment report, due on Feb. 7. But with the economy starting the New Year with heavy retail inventories and absentee consumers, the January job numbers may well look even worse than those for last month. If so, the Fed will pull the trigger.

GOODS PRICES ARE SUBDUED



SERVICES LEAD THE WAGE SLOWDOWN



THE WEEK AHEAD

HOUSING STARTS

Wednesday, Jan. 22, 8:30 a.m.

Housing starts probably slipped in December, but the annual rate probably rose.

Homebuilding probably started work at a slower pace in the postwar era.

Homebuilding probably started work at a slower pace in the postwar era.

INITIAL UNEMPLOYMENT CLAIMS

Thursday, Jan. 23, 8:30 a.m.

Unemployment claims probably rose in December, but the annual rate probably fell.

week ended Jan. 11, possibly landing close to 500,000 at an annual rate. That's because this period had no holidays, so the Christmas and New Year's Eve, when state employment offices were closed. However, during the holiday-shortened week ended Dec. 28, claims increased by 22,000, to an annual rate of 458,000, a clear sign the economy ended 1991 in a severely weakened state.

FEDERAL BUDGET

Thursday, Jan. 23, 2 p.m.

The MMS consensus expects that the U.S. government will post a deficit of \$4.1 billion in December. That's a bit better than the \$7.3 billion of December, 1990. Some of that high deficit of a year ago reflected the timing of operations

Desert Shield. For the first quarter of fiscal 1992, the deficit is expected to total \$8.7 billion, not much different from the \$8.2 billion of a year earlier. Growth in both government outlays and tax receipts has deteriorated over the past four quarters.

CAR SALES

Thursday, Jan. 23, 5:15 p.m.

Sales of new U.S.-made cars probably increased to an annual rate of about 5.8 million in mid-January, up from their painfully low pace of 5.3 million in the first 10 days of the month. Car buying has been on a downward trend since July 1991, when sales hit 6.6 million. That suggests more cuts in auto output, and more generous sales incentives.



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A 'DEATH KNELL' AT MACY'S?

THE DEAL THAT LOOKED SO SOLID TO SO MANY BIG NAMES IS GOING BUST

This was the deal that couldn't lose. The nation's smartest retailer was teaming with some of America's savviest investors to pull off the largest leveraged buyout in retailing ever. Starry-eyed projections foresaw a spectacular future for a private R. H. Macy & Co. So confident in the deal was Chief Executive Edward S. Finkelstein that he invested \$4.4 million of his own dough to grab 4.7% of the action. Legendary investor Laurence Tisch's Loews Corp. was good for 15%, while Wall Street wonderkind Michael Price (page 74) of Mutual Series Fund Inc. took 13%.

So much for all those smarts. Macy's is unraveling fast. And if Finkelstein, the 43-year Macy's veteran who masterminded the scheme, can't pull off a miracle, his chance-of-a-career deal may well end up in Chapter 11 this year. On Jan. 25, payments are due to the suppliers of Macy's clothing, bedding, jewelry, and other merchandise. The checks are already late, and if Finkelstein can't meet the deadline, shipments of fresh goods figure to dry up fast. With few goods to put on the shelves this spring, Macy's would virtually be ensured a trip to bankruptcy court, according to a Lehman Brothers analysis (table).

RETAIL DIVE. Macy's insists bankruptcy isn't even an option. "The company has no plans to file for Chapter 11," says a spokesman. "We do not think it would be in our interests to do so." Instead, Macy's says, a "comprehensive plan" is under development at Goldman, Sachs & Co., the firm that pulled in \$30 million in fees for taking Macy's private in the first place. Its aim, Macy's says, is to clean up the company's balance sheet by reducing its \$3.4 billion in debt.

To work, the Goldman plan will have to be a doozy. Not the least of Macy's woes is the worst retail slump in decades: The Commerce Dept. reported on Jan. 14 that retail sales last year rose just 0.7%, the smallest annual increase since the agency began tracking the figures in 1970. After inflation, retail volume actually sank.

But Macy's biggest worry is all the debt it must pay off. As if the original

million, along with \$20 million in preferred stock. With the extra cushion, Finkelstein last year laid out \$150 million for television ads he hoped would get hordes of shoppers back in the aisles.

DOWNGRADED BONDS. No such luck, and now creditors are growing more anxious by the day. On Jan. 10, Macy's delivered its worst news yet: Payments to suppliers, which are routinely issued on the 10th of the month, wouldn't be mailed until Jan. 25. The excuse: Macy's must pay down its bank credit line, something it couldn't handle and pay vendors, too. That prompted Standard & Poor's Corp. to downgrade Macy's bonds. "The critical element in Macy's avoidance of default until now has been its good relations with suppliers and banks," S&P announced. "With the recently announced moratorium on vendor payments, Macy has jeopardized those relationships, substantially increasing near-term risks."

Some of Macy's biggest suppliers say they'll keep shipping to the 144-store chain—for now. "We've supported Macy's and will continue to support them," says Linda Wachner, chief executive of Warnaco Inc., the lingerie maker. But vendors may not be so understanding if Macy's misses its Jan. 25 payment. "All the death knell signs are there," observes Sandra E. Mayerson, an attorney and head of the bankruptcy group at Kelley Drye & Warren in New York. "They've gone as far as they can with their banks, and you can't help but think they're building up a war chest for some kind of Chapter 11 filing."

There are a few, mostly unlikely, ways for Macy's to avoid that fate. In the most optimistic—and least likely—scenario, Macy's pulls through by reor-



CEO FINKELSTEIN: HE NEEDS TO PULL A RABBIT OUT OF HIS HAT

LBO debt weren't enough, Macy's in 1988 added \$1.1 billion by acquiring the tony California chains I. Magnin and Bull-ocks. Finkelstein made a game bid to rebalance the retailer's finances by bringing in fresh capital. In late 1990, Sir Run Run Shaw, a Hong Kong movie-maker, paid \$48 million for 11.6% of Macy's preferred stock. That same month, Tisch, Price, and the other big investors coughed up another \$92 million. And G.E. Capital Corp. bought Macy's credit-card operations for \$100

izing, auctioning assets, and convince its heavyweight investors to put more cash into the failing company. But it's unlikely that Finkelstein's fellow investors now are prepared to up ante. And while Macy's assets could be worth about \$350 million, says Michael Cha, a bond analyst at J. P. Morgan & Co., there may not be any interested buyers. I. Magnin, for instance, is an upscale retailer with most of its 24 stores in California—an unattractive combination during a recession. Even if Macy's could get \$200 million for the chain, only half of that would have to go toward repaying bank loans. "Magnin is a pimple," says Gilbert Harrison, a private investment banker.

Besides, Macy's needs a lot more than it could raise by selling off properties. The first step is for Macy's to reduce its debt by at least \$1 billion," says Raz Razari, a bond analyst at Lehman. "And to do that they're going to have to slash their junk bonds and convert to equity." That kind of debt-for-equity swap would require preferred shareholders to give up their \$375 million stake, and few believe they're ready to write it off.

Macy's investors might save some equity—and face—by trying another option, an out-of-court solution. Under this scenario, Finkelstein and his advisers could restructure the company without the muss and fuss of months or years in court. Meredith Adler, an analyst at Boston Corp., is betting Macy's will go that route. Her reasoning: The retailer owes \$102.3 million in interest payments by May 15. In an out-of-court restructuring, Macy's could reduce the payments by trading equity for debt, or by negotiating lower interest rates.

OTHER MIRACLE? But that idea leaves many Macy's lenders cold. They would be happier with a prepackaged bankruptcy filing—a quickie that favors large debt-holders by bringing them into the restructuring process. But this solution doesn't give suppliers much—if any—say. So, news of a prepackaged filing could easily prompt them to stop payments to the beleaguered retailer.

And that's how Macy's would likely end up in court. Indeed, Lehman's Kafri believes there's a 60% chance that Macy's bondholders will force a bankruptcy filing. "For a retailer the size of Macy's to accomplish an out-of-court restructuring is so difficult that I would consider it to be a modern-day miracle if it succeeded," agrees Jeffrey Chanin, a workout specialist currently advising bankrupt retailer Carter Hawley Hale. Finkelstein may have one more miracle in him. But even if Macy's sidesteps bankruptcy, it's now increasingly likely that the retail empire that couldn't lose about to be dismantled.

By Laura Zinn in New York

MACY'S GRIM CHOICES



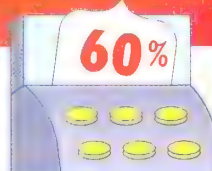
AN I. MAGNIN STORE IN BEVERLY HILLS: A CHAIN AROUND MACY'S NECK

OPTION AND SCENARIO

LIKELIHOOD

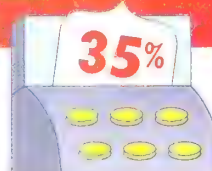
CHAPTER 11

In bankruptcy court, bondholders, banks, and stockholders fight over how to reorganize. Macy's insists this won't happen



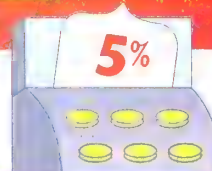
PREPACKAGED CHAPTER 11

Company files for bankruptcy, then immediately files a reorganization plan that's already agreed to by the majority of bondholders



OUT-OF-COURT RESTRUCTURING

Macy's management restructures without public filing, giving bondholders equity but no say in how the company is reorganized



EQUITY INFUSION

Private placement or public offering to raise funds. Macy's needs as much as \$1 billion



ASSET SALE

Macy's could sell I. Magnin, its upscale unit, and mortgage other real estate. But these actions would raise, at most, \$350 million



JAPAN JUST MAY BE READY TO CHANGE ITS WAYS

There are many more voices for trade accommodation with the U.S.

During President Bush's visit, many Japanese felt they were being unfairly blamed for America's own failures. Nightly news shows featuring the Big Three auto executives demanding that Japan import more American cars merely confirmed impressions that U.S. industry offers nothing Japan's people want. Bush himself seemed out of character. The tour, the powerful daily *Mainichi Shimbun* noted, "has left concern about his health and judgment as a U.S. President."

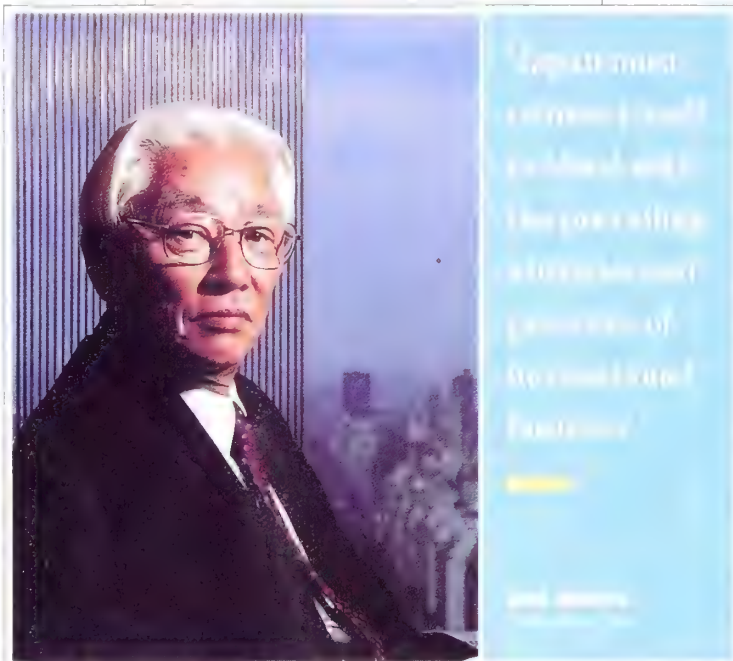
But Bush's becoming ill and the obvious shortcomings of the U.S. auto industry have fueled a growing shift in thinking among Japan's corporate elite. These executives view hardening U.S. attitudes toward Japan with alarm because they have huge stakes in the American market. They are looking for ways to soothe the frictions between the two countries. Says Haruyasu Osumi, senior managing director of the Kansai Economic Federation, a business lobby: "We must change ourselves, even though our way of business is good for Japan."

OUT OF SYNC. Among those in the forefront of the new thinking are Sony Chairman Akio Morita and Gai-shi Hiraiwa, chairman of the Keidanren, the top business lobby representing hundreds of Japanese blue-chip companies. These executives argue that Japanese business practices—out of sync with the rest of the world—have hastened the U.S. decline and have to change. "As Americans note, Japanese toil like worker bees, earn less than Americans, and pay out less in dividends to stockholders," Sony's Morita told a television interviewer, shortly after Bush left Japan. "The time has come for fundamental rethinking."

At a forum in Honolulu on Jan. 3, Morita called for a "new paradigm" for Japan to follow. He criticized Japanese corporations for relentlessly pursuing market share through "razor-thin profit

margins which no Western company would tolerate." He urged them to pay their workers and shareholders more, to cut work hours, and to boost corporate philanthropy. "Rather than argue the pros and cons," said Morita, Japan must "reinvent itself to blend with the prevailing attitudes and practices of international business."

Over time, such thinking could have a bigger impact on U.S.-Japan relations than a whole decade of piecemeal trade concessions. Since so many U.S.-Japan issues involve trade, the business community has enormous influence over the tone of the relationship. Indeed, a shift



in attitudes by Japan's business leaders offers the best hope for a change in Japanese behavior. Japan's Ministry of International Trade & Industry bureaucrats have been pushing business to boost imports, and some companies, including Canon Inc. and Hitachi Ltd., have pledged to comply—though mostly with purchases from their plants overseas. But the government can cajole and promise forever. Only the business community can deliver on government pledges.

Accommodationists such as Morita are becoming more common in Tokyo's corridors of power. "The reality is that the

U.S. needs greater Japanese collaboration," says Keikichi Honda, president of Bank of Tokyo's research arm. "It's not a joke. We need to recognize our responsibility and to share the burden."

No program has yet emerged to placate the U.S. But if America's "Japan problem" moves to center stage in the coming election, as many predict, campaign rhetoric could lead Corporate Japan to go beyond the rather meager concessions made to Bush. New moves might include technical and financial support for U.S. auto- and electronics parts suppliers seeking to be "design in" to Japanese products. Bureaucrats could also agree to purchase more U.S. glass and paper products and to cough up funds, refused so far, for America's \$8 billion supercollider project.

It's clearly in their interest to back Bush, since most of his Democratic rivals, as well as Republican challenger Patrick Buchanan, are much tougher on Japan. "Mr. Miyazawa will do everything possible and reasonable" that

can for Bush, says Bank of Tokyo's Honda. Such concessions, clearly aiding Bush, could gain momentum that would carry him beyond the campaign.

RISKY BUSINESS. If the auto deal is a harbinger, the two countries may place increased emphasis on managed trade in the bilateral dealings. Japan might welcome such a development. Executives and bureaucrats alike would find this arrangement easier to cope with than having to respond to vague demands for "open markets." Although there would be risks involved, "specifying sales target figures is the most visible and clear way to solve the trade problem," says the Keidanren's Hiraiwa.

The Japanese would find managed trade even easier to swallow if they felt it would result in a more competitive U.S. That's because they continue to depend on the U.S. as a vast market for products, a pathfinder in increasing complicated geopolitics, and a close ally in security matters.

Of course, Bush's bumbling through the Tokyo summit had Japanese asking whether America was still up to the leadership role. But as they showed their inept reaction to Iraq's invasion of Kuwait, they are a long way from being able to play it themselves.

By Ted Holden and Neil Gross in Tokyo

HOW MUCH JAPANESE CEOs REALLY MAKE

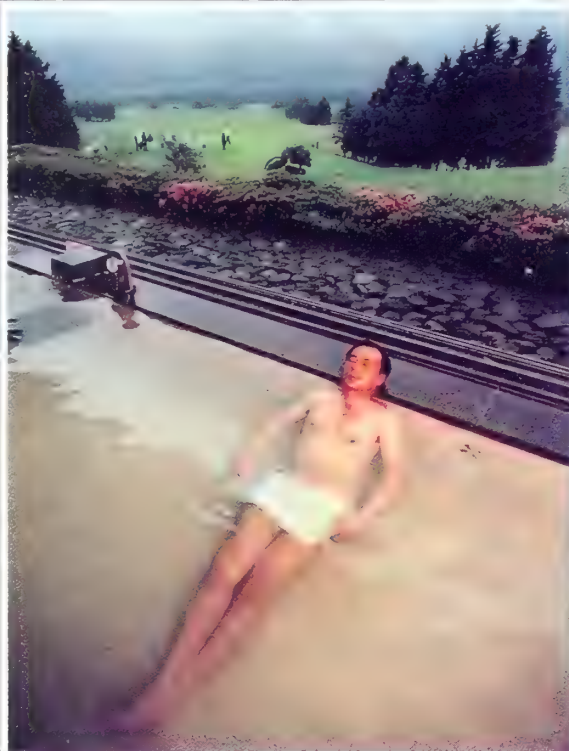
and how they stack up against the U.S. bosses they've criticized

If Shoichi Saba had been tapped as CEO of a major U.S. company, the question of his compensation could have been up for immediate discussion. Instead, Saba became CEO of Toshiba Corp., the Japanese electronics giant. During six years at that job in the 1980s, he never raised the issue of his pay with Toshiba's board. Though he refused to disclose his income, estimates range from \$320,000 to \$40,000. "I don't think any Japanese executives are ambitious for money," Saba says. "They're driven more by desire for responsibility than financial gain."

Whatever the reason, Japanese CEOs make considerably less than their U.S. counterparts, a subject that injected rancor into the recent visit to Tokyo by 21 American CEOs with President Bush. A peek into Japan's CEO compensation numbers suggests that world-class executives don't get paychecks to match.

What do top Japanese executives make? Unlike U.S. corporations, Japanese public companies aren't legally required to disclose top-manager pay, so most don't. But a Nissan Motor Co. spokesman confirms that CEO Yutaka Kume is near the top of the scale with about \$640,000 last year in salary and bonus. Honda Motor Co. CEO Nobuhiko Kawamoto made the same, while Toyota Motor Corp.'s Eiji Toyoda pocketed \$600,000, according to *Yomiuri Shimbun* estimates. "That's on the very, very high side for a Japanese CEO," says Thomas J. Nevins, president of Tokyo-based search firm TMT Inc. Citing Japanese government figures, Saba says the typical CEO of a Japanese manufacturer with 3,000 or more employees earns \$92,000 in salary and bonus. Fluctuating with company performance, bonuses are 20% to 30% of total pay.

LONG-TERM EFFECTS. The contrast with the American plan couldn't be more stark. At the biggest U.S. companies, a CEO collects an average yearly total of \$2.2 million (chart). His Japanese counterpart pulls down \$525,000. Industrial



AT THE CLUB: MEMBERSHIP MAY BE WORTH HALF A MILLION

Bank of Japan President Yoh Kurosawa and NEC President Tadahiro Sekimoto, for example, make between \$400,000 and \$640,000 in salary and bonus, estimates Gerald W. Williams, general manager of Towers, Perrin, Forster & Crosby Inc. A key difference: The long-term incentives such as stock options, which add up to nearly \$1.6 million for a U.S. CEO, are virtually unknown in Japan. "The irony is that in Japan there are no long-term incentives, but the Japanese exhibit the most long-term behavior," says Graef S. Crystal, a professor and executive pay expert at the University of California, Berkeley.

Japanese CEOs often set their own salaries. Each year, the board of directors, composed mainly of the company's top executives, votes a pool for director-level compensation based on company profits, rates of inflation, and what rivals are paying. The CEO doles out the money

as he sees fit, including his own share. A rule of thumb among big manufacturing companies is for the CEO to earn about one-third more in salary and bonus than the second-in-command. Taking a pay cut during hard times isn't unusual. Last year, directors at loss-plagued Isuzu Motors Ltd. cut their own pay by more than 10%. In 1986, directors of Hitachi Ltd. took a similar measure when profits fell.

What's behind the difference between top-level U.S. and Japanese salaries? Different business cultures, basically. Rarely is a Japanese executive fired, which can hardly be said for his U.S. counterpart. Take Kazuo Tobiya, who clung to power for seven years as president of Isuzu as its fortunes slid. He was finally ousted last October. And unlike in the U.S., there's just no open market for CEOs: Japanese companies don't raid each other for top talent.

Then there's U.S. individualism vs. Japanese teamwork. Americans believe one person—Disney's Michael Eisner or Tenneco's Mike Walsh—can turn a company around. By contrast, Japanese CEOs such as Honda's Kawamoto or President Akio Tanii of Matsushita Electric Industrial Co. lead their powerhouses by consensus management.

PERK BARREL. Some Americans retort that enormous perks pull the Japanese up into the U.S. league. Nissan's Kume, for one, lives rent-free in a lovely Tokyo house, a fairly unusual perk easily worth \$100,000 a year. A more common add-on is free golf-club membership, worth up to half a million dollars plus thousands in yearly fees. Also *de rigueur* is a chauffeur-driven car. Most notorious are the fat expense accounts that allow Japanese executives to treat customers, bureaucrats, and politicians to good times at Tokyo's toniest hostess clubs and geisha houses. American Express Co. reports that the \$35.5 billion Japanese companies lavished on such entertainment in 1989 was three times more than U.S. companies spent.

But CEO perks are also juicy in the U.S., home of the executive jet and the company hunting lodge. Increasingly, analysts are arguing that fat bennies are hurting U.S. competitiveness. Although Sadao Ohta, president of Tokyo-based Seikei Kenkyusho, an independent research firm specializing in personnel matters, complains that the typical Japanese CEO pay is "pretty terrible," it sure hasn't hurt Japan Inc.'s bottom line.

By Robert Neff in Tokyo, with Joyce Barnathan in New York

MODEST PAYCHECKS FOR JAPAN'S GLOBAL HEAVYWEIGHTS

Country	Compensation*
U.S.	\$3,200,000
BRITAIN	1,100,000
FRANCE	800,000
GERMANY	800,000
JAPAN	525,000

*Approximate annual salary, bonus, and present value of long-term incentives for typical CEO at the top 30 companies

DATA: GRAEF S. CRYSTAL

Commentary/by James B. Treece and Karen Lowry Miller

IF THE JAPANESE WERE RUNNING GM

Ever wonder what the Japanese would do if one of their big car-makers got into the bind General Motors Corp. is in now?

GM's response has been typical for a troubled U.S. company: It's slashing like mad. With its 1991 losses in the North American market estimated at \$6 billion, GM has eliminated executive bonuses, cut capital spending by \$1.1 billion, and, in the next four years, will close six assembly and 15-parts plants, sell other businesses, and eliminate 74,000 blue- and white-collar jobs.

Japan's response in such corporate crises has usually been very different. Let's assume for a moment that GM Kabushiki Kaisha (GM Co. Ltd.) is facing huge losses. What next?

Forget one myth: The Japanese government would not jump in. "The government very, very rarely bails out an individual firm," says Robert M. Uriu, a Japan expert at Columbia University. A troubled company is expected to fix its own problems, with help from supporting companies in its *keiretsu*, the industrial groups centered around a bank in which most major companies are a member (page 52). Only if the problems are industrywide will the government step in—usually at the industry's request.

RESCUE MERGER. The CEO of a troubled Japanese company is expected to cut and close as aggressively as GM Chairman Robert C. Stempel is doing now, although there are subtle differences. In Japan, management and labor alike receive 20% to 30% of their compensation in bonuses, and these usually go immediately. Suppliers that can't cut prices fast get the ax, too. "In the U.S., they fire people. In Japan, they fire companies," notes Akio Mikuni, head of Mikuni & Co., a Tokyo credit-rating agency. Remaining suppliers are often asked to take on the troubled company's sloughed-off workers, sometimes forcing layoffs of some of the

suppliers' own temporary employees.

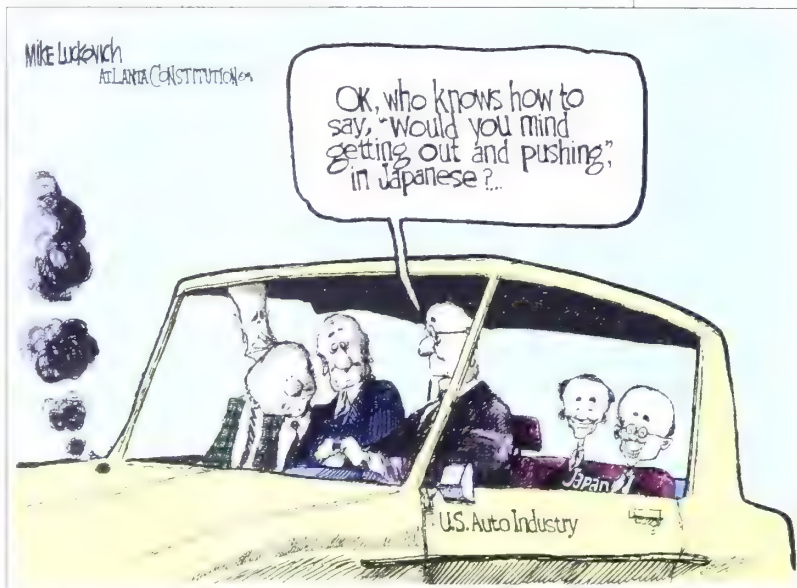
When all else fails, the *keiretsu* saves the day. If GM were indeed GM K.K., "it wouldn't have reached this stage, because of the *keiretsu*," asserts Robert M. Orr Jr., head of the Stanford Japan Center in Kyoto. "Banks are so involved in management that they can see far ahead of the situation" and take action early on. Japanese bankers get deeply involved in a workout and don't shy from installing new management or arranging a rescue merger. Last year, when Industrial

When an entire industry in Japan needs help, it's often allowed to form legal cartels while it restructures. In fact, so-called antirecession cartels are legitimized in Japan's long-standing Antimonopoly Law. This reflects the Japanese desire to avoid the social disruption that mass layoffs would cause. Richard J. Samuels, a professor at Massachusetts Institute of Technology, says that the Japanese "believe excessive competition is as bad as excessive concentration."

Typically, the government allows the industry to put a floor under prices or agree not to raise prices above a certain point. Companies may coordinate capacity reductions, set sales limits, or agree to tone down capital investment. In most cases, targets for such actions are set by the industry itself and ratified by the government.

The Japanese government doesn't shy away from protection, either. The key to a successful industry turnaround is often a temporary tariff-and-quota package that keeps foreign competitors at bay. For example, when Japanese aluminum got into trouble in the late 1970s after oil prices shot up, Tokyo slapped a tariff on imported aluminum, then gave the tariff receipts to the industry with the understanding that companies would move into higher-value-added fabrication or set up overseas operations.

Admittedly, many of Japan's practices wouldn't work in the U.S. Indeed, the U.S. probably should not copy Japanese protectionism. Japan's own use of antirecession cartels is declining, because of international pressure. But if political concerns made protecting the Big Three unavoidable, it would pay to remember that in Japan there's always a quid pro quo. Suppliers and creditors must be involved in the turnaround—and share the pain. And the government only backs industries that keep swallowing their castor oil.



Bank of Japan Ltd. (IBJ) oversaw a bailout of Fuji Heavy Industries Ltd., maker of Subaru cars, it sent in a turnaround artist from Nissan Diesel Motor Co. to head Fuji, and it got Nissan Motor Co. to extend assistance.

Detroit has done one thing Japanese executives usually do: Last spring, the chairmen of Ford, GM, and Chrysler paid a joint visit to the White House to explain their problems to President Bush. The difference is that in Japan they would have gotten a lot more aid than the Big Three have so far.

In Japan, 'it wouldn't have reached this stage, because of the *keiretsu*.' The banks would step in far earlier



JUST AWAY: USX'S SOUTH SIDE STEEL PLANT FINALLY SHUT ITS GATES

THE MIDWEST RUNS OUT OF HIDING PLACES

The recession has finally edged in from both coasts—and it's ugly

The word finally came on Jan. 9. South Works, USX's Chicago steel plant that produced the girders and beams for the Houston Astrodome, the Mackinac Bridge, and much of the Windy City's skyline, will close later this year. Like 20,000 before them, South Works' final 645 workers will soon find themselves on the unemployment line. "I've seen the plant go from a giant to a little skeleton," says Thomas Stankus, a

30-year veteran who followed his stepfather into the mill. "Now it's gone."

That's not all that's gone. There are the 700 jobs lost at Gerber Products, the 761 workers cut by Steelcase, and the 1,000 laid off recently by First Chicago. And, of course, there are General Motors Corp.'s plans to cut 74,000 jobs—90% in Michigan, Ohio, and Indiana.

STATE START. The recession has crept over the Midwest like a fog. From St. Louis to Detroit, companies are slashing payrolls and tightening belts. State governors are wearing out their calculators, figuring budget shortfalls: The deficits in Illinois, Michigan, Indi-

ana, and Ohio will total \$3.4 billion this year (table). "No question, we expect things to get worse before they get better," says Diane Swonk, senior regional economist for First National Bank of Chicago. "The Midwest is late in coming into the party, so we're also going to be late in leaving."

The first official confirmation of the region's downturn may have come on Jan. 10, when Labor Dept. unemploy-

ment figures pointed to real trouble in the Midwest. Illinois' 9.3% rate was the worst among the nation's 11 largest states. Boosted by the idling of 3,800 former Midway Airlines employees, a strike by nearly 5,700 Caterpillar workers, and layoffs by Sears, Kraft, and other well-known corporate citizens, the state's jobless rate has soared from 7.5% in a bare 12 months. Ohio's relatively healthy 6.6% rate was still a full percentage point above November's figure, the biggest jump among industrial states.

All this is a rude shock to Midwesterners who thought they had inoculated themselves against severe downturns. Because the Midwest spent so much of the decade recovering from back-to-back recessions, the region's economy never flared during the 1980s like those of its coastal cousins. Besides, the old Rust Belt states renewed themselves by diversifying into health care, high technology, finance, and other industries.

The result? While both coasts sank into an economic mire, the Midwest held steady—for a while. As recently as last summer, while New England's retail sales sank 2.5% and the West Coast's were flat, retail sales in the Midwest were up 2.5%. And, while August housing starts had dropped nearly 23% in the Northeast, in the Midwest they actually rose 4%. "We were patting ourselves on the back, saying the recession didn't hurt very much," says Robert Dederick, chief economist at Northern Trust.

Now, in such places as Dayton, Ohio, people are finding out that zip codes can't stop a recession. In November, the Federated Department Stores chain announced it would shutter its downtown Lazarus store, putting 350 people out of work. In December, the Pentagon announced defense cuts that will cost 1,700 jobs at the Dayton-based Mound nuclear

plant. This month, the dismantling of a USAir Inc. hub will cut about 360 more jobs. Still hanging over the city is the fate of some 20,000 people employed by 10 GM plants nearby. "It's been a blow to the psyche," says Art Meyer, executive director of the Dayton Business Committee.

RAISING THE FLAG. The irony is that, except for the unemployment figures, there's little statistical evidence to back up what most people in the region are feeling. Because layoffs are just hitting now, the numbers are lagging. The most recent economic data show that the region's housing starts are

HARD TIMES HIT THE MIDWEST

ILLINOIS Chicago is saddled with a glut of offices, layoffs at First Chicago, and the Midway Airlines collapse. Rural areas are hurt by Caterpillar strike, shutdowns at Deere and J.I. Case. At 9.3%, unemployment rate is worst among U.S. industrial states

INDIANA Shortfall of nearly \$1.25 billion in state's two-year budget prompts \$350 million dip into "rainy day" fund. Third-quarter home sales down 12.4%

MICHIGAN Tens of thousands of auto jobs have been lost, giving the state 9.1% unemployment. Michigan's 1992 budget shortfall could hit \$200 million

MISSOURI Double-digit growth in unemployment claims is fastest in region. Layoffs at McDonnell Douglas, departure of General Dynamics headquarters are big blows. Office vacancies in St. Louis are rising again, to about 25%

OHIO State budget gap is \$457 million. The state faces layoffs at Timken, TRW, Ameritrust, and Ferro

DATA BW

about even with last year's, while exports were up nearly 7%, and retail sales had slipped only slightly. "Everybody in the Midwest is worried about the double dip—except the economists," notes George A. Erickcek, a regional analyst at the W. E. Upjohn Institute for Employment Research.

Nobody has to prove to Thomas L. Moenich that there's a recession. The Cleveland hair stylist has seen his clientele of lawyers, accountants, and employees of big companies such as BP America slip away. Says Moenich: "Everybody's losing jobs." Victor Gallati, a Chicago car dealer, laid off four employees in December and cut salaries and commissions for the rest. "This place has always been successful, but the last couple of months have been awful," Gallati says.

Big companies are hurting, too. Kmart Corp. reports that Midwestern sales have fallen so much in recent months that the region now ranks with the West Coast as the discount chain's worst. Inland Steel Industries and USX have asked the United Steelworkers to renegotiate contracts, and LTV, National Steel, and Bethlehem "are banging on our door," says a USW source. Already, some companies are having to go to unusual measures to keep business on an even keel. At ITT Automotive Inc., President and Chief Executive Timothy D. Leuliette already has lent management help to three struggling suppliers. Recently, he even advanced more than \$1 million in cash to keep one afloat.

LEDGERDEMAIN. The recession is plain at statehouses across the region, too. As governors from Michigan to Missouri have repeatedly revised their revenue estimates downward, they've been forced to cut state payrolls and use unappetizing budgetary sleight of hand. Indiana Governor Evan Bayh has dipped into a "rainy day" fund for an extra \$350 million. And Illinois' James Edgar wants to borrow \$500 million to meet the state's mandated balanced-budget requirement.

The economic downturn has Edgar's staff working long hours, trying to negotiate a budget deal with a reluctant legislature. "Because of the revenue shortfall that hit us in November and December and into January, we are asking for cuts on top of cuts," says Kirk Dillard, Edgar's chief of staff. "From a planning standpoint, we don't know when we'll come out of this economic slowdown." From a reality standpoint, there's no mistaking that the recession has hit America's heartland.

By David Greising in Chicago, with David Woodruff in Detroit, Zachary Schiller in Cleveland, and Michael Schneider in Pittsburgh

PEOPLE

THIS MAN SOUNDED THE SILICONE ALARM—IN 1976

Now, they're listening to ex-Dow Corning engineer Thomas Talcott

Former Dow Corning Corp. engineer Thomas D. Talcott for years told anyone who would listen that the company had been conducting "experimental surgery on humans." Talcott claimed that the silicone breast implants the company sold could rupture and leak, posing a serious health risk. But people ignored his warnings, and few noticed his 1976 decision to quit Dow Corning in protest.

Now, the 64-year-old Talcott has all the audience he could want. The phone has been ringing off the hook at his Laguna Niguel (Calif.) home, and he even appeared on network television on Jan. 13. The reason for Talcott's high profile: widespread publication of internal Dow Corning documents that suggest the company was aware of implant problems for years and tried to hide them. The documents, whose existence BUSINESS WEEK disclosed in June, 1991, largely corroborate Talcott's account. "The lid's coming off, slowly but surely," he says.

Talcott is doing all he can to help spring that lid. Although various court orders limit what he can say about Dow Corning, Talcott has helped lawyers for implant recipients and alerted the Food & Drug Administration and Congress to the documents.

'DISGRUNTLED.' For their part, Dow Corning officials held a Jan. 13 press conference to restate their contention that breast implants are safe and to dismiss the memos as part of the normal to-and-fro of scientific debate. The next day, though, the company halted implant production and took a \$25 million charge to cover the costs of the shutdown. Yet the company minimizes Talcott's role in developing silicone gel and notes that he earns \$400 an hour for his testimony. He "left as a disgruntled employee. You've got to question to some degree his motive," says Dan Hayes, president of Dow Corning's breast-implant subsidiary.

Talcott is an unlikely whistleblower. A 24-year Dow Corning veteran, he helped develop the silicone gel that the company once used to fill implants. But he says he resigned after the company switched to a more liquid gel designed to make the implants softer. He feared the thinner gel could migrate through the body, causing harm. "He put his whole life on the line for what he believed," says Mark A. Kolka, a lawyer in Bay City, Mich., who has sued Dow Corning

on behalf of an implant recipient. After leaving Dow Corning, Talcott worked for two other implant makers, then started his own materials consulting business in 1982.

LEGWORK. That business is doing well enough to finance his crusade. Last year, he testified as an expert witness in a California lawsuit brought by Mariann Hopkins, who claims her 1976 implants ruptured and damaged her immune system. The trial, which featured many of the documents that have since been publicized, resulted in a \$7.34 million jury award against Dow Corning. During the trial, lawyers for Dow Corning "tried



TALCOTT: DOW CORNING CALLS HIS MOTIVES QUESTIONABLE

to point out that I am a hired gun," says Talcott. "The thing is, I'm coming from the heart, and the jury can tell that." The company plans to appeal.

Talcott's legwork also was a factor in the FDA's Jan. 6 decision to impose a 45-day moratorium on the sale of the implants. Talcott obtained a list of confidential documents from a Michigan lawsuit against Dow Corning. He circulated it to the head of an FDA advisory panel, top FDA officials, and Congress. Not itself confidential, the list—which he dubs the "index of incriminating documents"—prompted FDA officials to act. Now, members of Congress are calling for a Justice Dept. investigation into Dow Corning's safety claims.

It took 15 years, but implant makers ignore Tom Talcott only at their peril.

By Tim Smart in Washington



SPIRINS, ANYONE? EVEN AFTER AN APRIL IPO, TURLEY WILL BE CARRYING \$1.4 BILLION IN DEBT

A DRUGSTORE COWBOY RIDES TO REVCO'S RESCUE

Eckerd Corp.'s buyout will create America's largest pharmacy chain

It was Jan. 5, a Sunday evening, and Jack Eckerd Corp. Chairman Stewart Turley felt things were coming together. The mood among the contentious creditors of Revco D.S. Inc. was shifting in his favor. An outsider might think he was kidding himself. After all, only two days earlier, Eckerd's plan—to acquire Revco and take the merged entity public—had received the least support of the three reorganization bids submitted to end the drugstore chain's three-year-plus bout in bankruptcy court. But that didn't deter Turley. Working the phones, he began to sweeten his bid and build the needed consensus among creditors. His hunch was right. By Monday night, competitor Rite Aid Corp. had decided to bow out, deeming the deal too costly. And by week's end, most creditors had swung to Eckerd's plan from a deal that would have kept Revco independent. Now, assuming that a majority of creditors and the bankruptcy court confirm the plan, worth an estimated \$779 million, it appears Eckerd will not only end Revco's tortuous bankruptcy but will leapfrog to a leading industry position.

COMFORT LEVEL. The deal will make Eckerd, based in Clearwater, Fla., the largest drugstore chain in the country, with 2,445 stores to 2,445 for the current champ, Rite Aid. And it brings to a close Revco's disastrous 1986 leveraged

buyout and opens a new chapter for Eckerd, which did a similar transaction that year.

Turley believes Revco makes a good fit. The company is close to Eckerd's size, while half of Revco's 1,150 stores are in states in which Eckerd already operates, such as North Carolina. The other half extend Eckerd's reach into the Midwest. "We saw an opportunity to expand in new markets and to fill in market gaps within existing territories," he says.

Moreover, Turley already "had a good idea of what we could do with their stores," he says. An affiliate bought 223 Revco stores in July, 1990, for \$80 million. Eckerd closed 118 stores, sold 9, and operates 96.

That experience gave Turley a certain level of comfort when he submitted a reorganization plan for Revco in September. Eckerd was competing with a plan put forward by some Revco creditors and backed by the chain's management. Rite Aid entered the fray in October, with an offer of

\$585 million in cash and stock, which it sweetened twice, placing a final value on it of \$733 million.

In the end, though, Eckerd's bid carried the day. Now, Eckerd plans to raise about \$300 million from an initial public offering it expects to complete by April. But even if all goes according to plan, Eckerd will be left with a worrisome \$1.4 billion in debt and the suspicion in some quarters that it may have overpaid. Says Rite Aid President Martin L. Grass: "If Rite Aid paid what Eckerd paid, we would have overpaid." Turley, noting that Rite Aid's offer included more cash, says he's not losing sleep over the price.

UNDERPERFORMERS. Operational questions loom large, as well. "It's going to be a tough consolidation period for Eckerd," says Mark Schnitzer, an analyst with Dabney/Resnick & Wagner Inc., a Beverly Hills brokerage house specializing in junk bonds. "They're absorbing a lot of underperforming drug stores." He worries that while management focuses on Revco, problems at Eckerd's own stores could be overlooked.

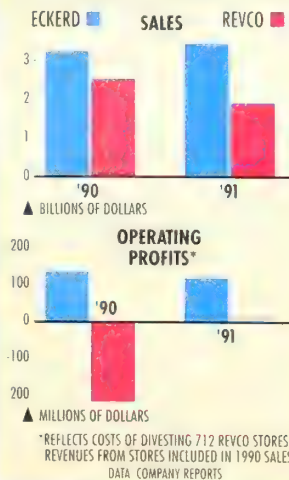
Those concerns don't worry Turley. "We're experienced at managing for cash flow," he says. Eckerd has cut its bank debt from \$690 million in May, 1986, to \$364 million in 1990, even as it added and remodeled stores. Moreover, Revco produced solid sales gains and even a small operating profit in 1991 (chart).

Meanwhile, plans for the consolidation are well under way. Eckerd will have to close or sell 250 to 275 Revco stores, while trying to hang on to most Revco employees, redeploying them into Eckerd operations. And Turley plans to continue to bolster Revco's prescription business while building on Eckerd's areas of expertise, such as photo processing. The combined companies, Eckerd projects, will produce earnings of \$42 million on sales of \$5.6 billion by 1993.

As for being a public company again, Turley has no trepidations. Eckerd was a public company before the buyout and has managed both light and heavy debt loads. "I think there are good lessons to be learned from both cases," he says. If the next couple of years work out according to projections, Turley can teach a few lessons on making the best of the failed LBOs of the 1980s.

By Gail DeGeorge in Miami, with Zachary Schiller in Cleveland

TURNING TWO INTO ONE



Weld a peace sign
to the hood
and make believe
you're driving
a Mercedes that
gets really great gas
mileage.



THE BRAZEN audacity. To compare a Subaru® Legacy™ to one of Germany's finest and most-revered automobiles.

Hey, why not. They both are designed to do the same thing. Transport people and their stuff from point A to point B. And they both perform that basic automotive function effectively and comfortably.

For example, the Legacy LSi Sedan, which costs many thousands less than the cheapest Mercedes, offers most of the amenities you'd only expect from a fine, absurdly priced luxury car:

Soft grain leather seats. All-Wheel Drive. Compact disc player. Moonroof. Driver's-side air bag. The 4-Channel Anti-Lock Braking System which monitors each wheel to help prevent the car from locking up during emergency stops. And the Legacy is also blessed

with numerous other engineering features which translate into the type of durability Subaru is famous for.

(Important selling point—93% of all Subaru cars registered in the last 10 years are still on the road and running today.¹)

Now, if you've read this far, you'd probably like a second opinion about the Legacy. Alright, here's one from *Car and Driver*: "The Subaru Legacy is the nicest driving, least expensive, and best equipped 4-wheel drive sedan on the market."²

We repeat — nicest driving, least expensive, best equipped.

So if you're into haughty status symbols, go into the closet and grab that medallion off that ancient Nehru jacket and affix it to the hood. Or, then again, with all the money you'll be saving on your new Legacy you could just imagine you're driving the world's peppiest, most elegantly styled Brink's truck.

Subaru Legacy LSi



*Subaru. What to drive.*TM

WHY THEY'RE NOT PARTYING AT SHEARSON

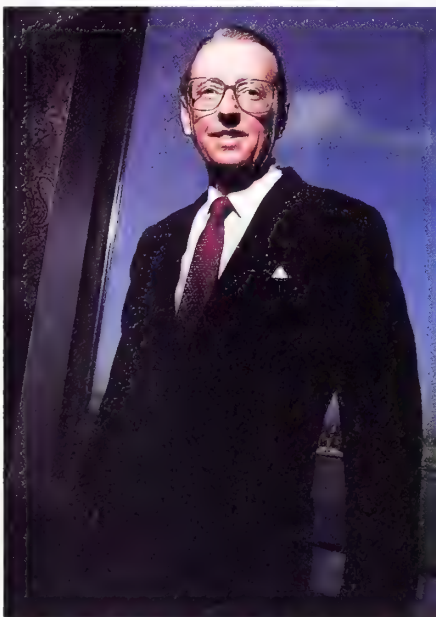
Business is fabulous, but a big loan to Prime Computer looks iffy

These ought to be great times for American Express Co.'s Shearson Lehman Brothers Inc. The brokerage house's retail business is soaring, as investors flock to the stock market. Investment-banking earnings from its Lehman Brothers unit are booming, too, thanks to a slew of new underwritings. There's even talk that AmEx could raise \$1 billion by selling half of Lehman to its management and public investors.

But Shearson has one big, nagging problem: Prime Computer Inc. In January, 1990, Shearson put up a \$500 million bridge loan to finance the \$1.3 billion leveraged buyout of the minicomputer maker. Since then, things have deteriorated for Prime. Now, while a Shearson spokesman insists the loan is "money good," many on Wall Street say they're not so sure. Indeed, analysts believe Shearson this year may be forced to set aside reserves against the loan, penalizing earnings. "When I value the stock, I assume that only half of the Prime loan will be paid," says Guy Moszkowski, analyst at Sanford C. Bernstein & Co.

FALLING SALES. That loan was supposed to be repaid long ago, from the sale of junk bonds Shearson had planned to underwrite. But, thanks to the collapse of the junk market, that idea was retired, and Shearson had to convert the bridge loan into a six-year note. In exchange, the brokerage house took a 7.5% equity stake in the computer maker. Since then, Prime's sales and profits have declined precipitously: In its September quarter, the company saw sales drop 16%, to \$316 million, leaving red ink of \$50 million.

There's precedent for a write-down. In October, three weeks after a company spokesman expressed full confidence in Prime's prospects, Shearson Chief Exec-



CLARK WROTE DOWN MOST OF SHEARSON'S EQUITY STAKE IN PRIME—BUT NOT THE LOAN

utive Howard L. Clark Jr. wrote down all but \$10 million of his company's \$66 million stake in Prime. "There seems to be some fundamental discrepancy between having written down the equity but not carrying any reserves for the loan," says Moszkowski.

Shearson disagrees, saying its bridge loan is more valuable than equity, since the loan ranks higher in the capital structure. Shearson believes the note will be repaid, even if its equity in Prime is about worthless.

Further reserves are the last thing Shearson parent American Express needs right now. When the company reports fourth-quarter earnings around Jan. 27, it is already expected to take a

provision of about \$250 million for problems at its Optima credit-card division.

While Shearson struggles with its books, Prime struggles to stay alive. The company's bankers are so nervous that they're insisting on controlling all incoming cash—and on written guarantees that their loans will be back by other assets. Prime says the bankers' actions have only strengthened their relationships.

OPTIONS. But Prime's relations with other investors are crumbling fast. By next September, Prudential Insurance Co. of America could issue a default on terms of its \$70 million note to Prime if the computer company doesn't sharply boost its net worth, as the note requires. That's unlikely. And even the company that led the original Prime LBO has distanced itself. New York venture-capital firm J. H. Whitney & Co., which acted as Prime's white knight in a takeover battle with raider Bennett S. LeBow, resigned its seats on Prime's board in December.

Now, Prime says, the company has a number of options, including trying to raise money in the capital markets. Prime does have an 18-month reprieve, thanks to a Shearson agreement in December to ease the loan-repayment terms by delaying interest payments. That accord lowers 1992 cash outlays to a level that Prime should be able to meet—even with depressed sales. Meantime, Prime can try to build revenues with a new software program, due in March, that might be a hit. And Prime may yet lure a big computer company willing to invest in return for access to those buyers, though efforts to attract such investors have so far failed.

Then again, Prime's unlikely recovery may be more likely than Shearson's getting all its money back on that six-year note. Harvey Allison, an Alex. Brown & Sons Inc. computer analyst, says that if Prime doesn't come up with new equity, or a big improvement in sales, Shearson could have to exchange its debt for equity. And that would empty the aspirin bottles at Shearson.

By Gary McWilliams in Boston and Leah Nathans Spiro in New York

HOW AMERICAN EXPRESS GOT SADDLED WITH PRIME

JUNE, 1989	JANUARY, 1990	AUGUST, 1990	AUGUST, 1991	OCTOBER, 1991	DECEMBER, 1991
Prime's initial \$1.3-billion LBO from 11 private investors	Valley completes the deal. AmEx provides the \$500 million bridge loan	The junk-bond market's collapse prompts AmEx to convert the bridge loan to a six-year note, due in July, 1996. In return, it gets equity	Creditors save AmEx from bankruptcy after Prime posts a \$349.6 million quarterly loss. Prime prepares to sell stock in a software unit, but calls it off one month later	AmEx writes down its \$66 million equity stake to \$10 million	AmEx agrees to delay cash interest on its \$500 million loan in return for speeding up total repayments to July, 1995. Prime says sales won't let it meet the first payment

A VERY POPULAR MONEY-LOSER

HP and IBM are in a bidding war for France's Groupe Bull

It's an intense contest for a seemingly dubious prize. Yet top IBM officials and Hewlett-Packard President John Young have paraded to Paris in recent days, where they're competing to team up with French computer maker Groupe Bull, a chronic money-loser. The government ward does have one redeeming quality: Its huge European customer base will boost the winner's marketing out as Japanese competitors move onto the Continent in the 1990s.

The French are milking the situation for all it's worth in cash, technology, and development agreements. Says one American source in on the negotiations: "It's a bidding war." At the same time, it's a key test of Prime Minister Edith Cresson's new strategy for keeping France's ailing high-tech industries afloat. She hopes Bull will set the tone for similar deals with such other cash-trapped state concerns as Thomson Consumer Electronics and aircraft engine maker SNECMA.

WINNING RANKS. Bull's operations last year lost roughly \$240 million, after a 1.3 billion loss in 1990. Just the same, IBM and HP are eager for it to adopt their respective versions of high-speed, RISC-chip technologies, which will form the core of future computers from desktop workstations to mainframes. Each is hoping its design will set the world standard. With continued French government support and 6% of European computer sales, Bull will remain among the winning ranks of world players that could make a difference. Also, such a deal could mean hundreds of millions of dollars in orders for U.S. workstations, which Bull would resell to its customer base—Europe's third largest after IBM and Siemens-Nixdorf. "Bull has a lot to offer," says Robert Ayadabirian, director general of Hewlett-Packard France.

As the object of such desires, Bull—with Cresson's help—is hoping to extract rich offers from the Americans. Beyond getting RISC technology, Bull is insisting on close joint development of critical chip and system designs. And it is asking suitors to ante up from \$100 million to \$200 million for roughly 5% of Bull's equity. In this contest, expected to be settled in late January, the deciding vote may be cast at the top, by President François Mitterrand.

By Jonathan B. Levine in Paris



We like getting to know our Jack Daniel's customers. So, we hope you'll drop us a line one of these days.

IN 1907, JACK DANIEL'S NEPHEW said, "All Goods Worth Price Charged." We're still saying it in times like these.



Mr. Lem Motlow put this slogan on jugs and crocks of his uncle's whiskey. You see, he knew that no other whiskey was made with pure limestone water. And that no other distiller mellowed his product through hard maple charcoal before aging. Mr. Motlow knew value when he saw it. And still today, though Jack Daniel's is priced above most whiskeys, a sip will prove its worth.

SMOOTH SIPPIN'
TENNESSEE WHISKEY

Tennessee Whiskey • 40-43% alcohol by volume (80-86 proof) • Distilled and Bottled by Jack Daniel Distillery, Lem Motlow, Proprietor, Route 1, Lynchburg (Pop 361), Tennessee 37352
Placed in the National Register of Historic Places by the United States Government.





THAT SINKING FEELING AT ELECTRIC BOAT

The submarine maker may be finished—disaster for Groton, Conn.

It's the grand opening of Luzzi's Pizza & Deli, but owner Joseph Luzzi is already worrying about going out of business. Located down the block from the Electric Boat Div. of General Dynamics Corp., Luzzi is dependent on the submarine shipyard for customers. He's hoping that reports of possible cuts at the Groton (Conn.) operation aren't true. "People say I've got to be crazy, that there will be no money left around here. I'm going on a prayer," says Luzzi.

He isn't the only one saying novenas. Electric Boat's current backlog is shrinking fast, and the company is banking heavily on the Seawolf nuclear submarine program. But Congress is likely to shrink the program, prompting a drastic downsizing of 91-year-old Electric Boat, which employs 15,000 workers in Groton—11% of total employment in the Groton area. "We need at least one Seawolf a year to remain viable," says an Electric Boat spokesman. "Even with one a year, the division will be half the size it is today by 1996." As they wait for the defense budget to take shape, the folks in Groton are on tenterhooks. Says Mayor Linda B. Krause: "There's a sense of a disaster about to happen."

At Army bases in Kansas, high-tech weapons plants in California, training camps in North Carolina, people feel the

same thing: The cold war already is history, and the U.S. is redeploying the resources it once spent to maintain the balance of terror. That's wonderful news for future generations, but right here, right now, the primary support for many towns is being kicked away.

Nowhere is the kick sharper than in Groton. The Electric Boat shipyard there was slated to share construction of 12 Seawolf nuclear submarines. The betting in Washington now is that the Navy will order only three Seawolfs. Says Loren

GROTON AT A GLANCE

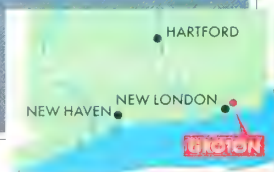
1990 population 45,144

October, 1991, unemployment rate 5.6%

Total employment at General Dynamics' Groton-based Electric Boat unit 15,000

Electric Boat's state & local tax bill \$14 million

DATA: TOWN REPORTS, MORRIS & STELLINGMA



B. Thompson, deputy director of the National Security Studies Program at Georgetown University: "It's basically dead program."

That news has demoralized Groton and other towns in New London County. Since 1989, Electric Boat has been warning local leaders about possible layoffs. But defense dollars have fueled the local economy for decades, and most businesses and workers didn't know what else to do. "We always had defense and didn't think we'd have to diversify," says Dolores E. Hauber, vice-president at Bank of Mystic and town councillor in Groton.

'AGGRESSIVE.' Local officials and business leaders have formed an economic development team to spur job creation in a region where 72% of the jobs are defense-dependent (table) and defense contracts in 1991 worked out to an amazing \$9,085 per capita. "We've gotten a lot more aggressive. If Electric Boat doesn't get the Seawolf contract, we stand to lose close to 28,000 jobs in this area," says Southeastern Connecticut Chamber of Commerce President William D. Moore. The opening of a casino on an Indian reservation in nearby Ledyard next month could mean 2,500 new jobs. But few businesses are expanding.

Most local stores are struggling just to keep the doors open. Richard L. Campo, owner of Campo's Furniture Co. across the Thames River from Electric Boat in New London, is cutting prices to the bone to stimulate trade. Ron F. Wilds, owner of the Fast Attack Convenience Store, next to Luzzi's, fears a cutback at Electric Boat could put him out of business. "I'd love to sell out," he sighs, "if I had a chance."

For now, Electric Boat workers are hoping the clock won't strike midnight. Some say bravely that the cutbacks will never come, that politicians will realize the need to maintain a strong submarine fleet. One chain-smoking 39-year-old designer says he can't imagine working anywhere other than Electric Boat, where he has been for 18 years: "You just keep thinking it can't happen."

Even those who can picture life without Electric Boat are resigned to staying put. Many think job prospects in other parts of the country aren't much better. Says George D. Hodge, a 33-year-old welder: "Where am I going to go? The way the economy is going, jobs are uncertain everywhere."

Joe Luzzi, meanwhile, hopes word-of-mouth will draw more boatyard workers in for a slice of pizza. And he's saying his prayers at night to win Electric Boat the divine intervention it seems now to need.

By Lisa Driscoll in Groton, with Seamus Payne in Washington

EDITED BY HARRIS COLLINGWOOD

DEALMAKERS DO THE CONTINENTAL

When companies look beyond their borders for mergers and acquisitions, where do they look? In 1991, the destination of choice was the European Community, with North America not far behind, say accountants KPMG Peat Marwick. But cross-border deals in both regions were down sharply from 1990

	1991	1990
Investments in millions of dollars		
EUROPEAN COMMUNITY		
BELGIUM	\$1,104	\$722
BRITAIN	9,102	20,404
FRANCE	2,365	4,592
GERMANY	2,192	6,034
ITALY	1,135	3,485
NETHERLANDS	1,549	1,224
SPAIN	3,135	3,736
OTHER	2,696	1,666
TOTAL EC	23,278	41,863
NORTH AMERICA		
CANADA	1,676	5,450
U.S.	18,659	49,327
TOTAL NORTH AMERICA	20,335	54,777

GM GOES TRUCKING TO CHINA . . .

► The world's largest carmaker is entering the world's largest potential market—and one of the last centrally planned economies. On Jan. 15, General Motors said it had formed a joint venture with China's Jinbei Automobile to produce light trucks. Jinbei GM Automotive is expected to build 600 to 1,000 S Series pickups this year, starting in July, with output to grow to 50,000 trucks by 1998. GM will own 30% of the new venture and supply it with truck parts for assembly.

. . . WHILE AT&T HOOKS UP WITH UKRAINE

► Like GM, AT&T is starting the new year with a foreign linkup. The telephone giant in December bought its first

stake in a foreign phone company, Venezuela's CANTV. On Jan. 14, it made a much bigger splash by announcing it will hold 39% of a new company that will build, own, and run Ukraine's long-distance network. Its partners are PTT Telecom Netherlands with 10% and the Ukrainian government with 51%.

AT&T will pay for its share by providing badly needed switching equipment to Ukraine. And some of its profits will come from hard-currency payments for calls into Ukraine—which should be easier to make with the new network in place.

A BANK MERGER THAT WASN'T MEANT TO BE

► Two of New England's biggest banks are finally producing some good news. On Jan. 15, Hartford-based Shawmut National called off a proposed merger with archrival Bank of Boston. After a year of stop-and-go negotiations, the banks say they can survive on their own.

The two began considering a merger after Fleet/Norstar Financial Group scored Bank of New England in an FDIC auction last January. Now both banks believe they can take on Fleet as independents. Shawmut says its balance sheet is improving despite more than \$1 billion in bad real estate loans on its books.

'GEE, THANKS, BOSS—WHAT A LUCKY BREAK!'

"Fired" is such an ugly word. Instead, companies "let people go," or "downsize," or, more bureaucratically, "implement a work force reduction."

But if there were a prize—a big yellow happy face, perhaps—awarded for the world's softest euphemism, it would go to Bank of America. Huge layoffs—up to 14,000—will follow BofA's planned merger with Security Pacific Bank. And how does BofA describe the merger's human consequences? As a "release of resources."

That's what John Shoven, a Stanford University economist, calls layoffs in an analysis prepared for BofA. And where will these "resources" go? Not to the unemployment office, surely. "Some may go into provision of other financial services, but some of them may contribute to education, health, food production and delivery, or even environmental cleanup."

Who says Americans are hung up on gloom and doom?



And Bank of Boston is profitable again for the first time since 1990's third quarter.

SETTING LIMITS AT LLOYD'S

► Disasters, natural and man-made, have made life difficult over the past few years for Lloyd's of London, the venerable insurance exchange. Losses from Hurricane Hugo and the Exxon Valdez oil spill, combined with lawsuits in Britain and the U.S. from individual investors who provide capital to Lloyd's, have cast doubt on the institution's ability to continue shouldering

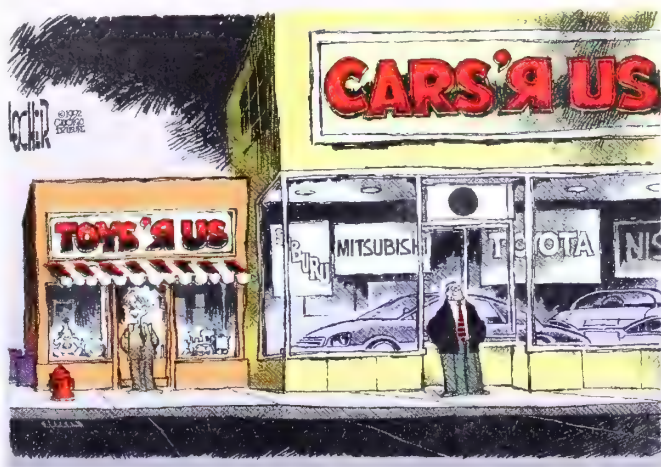
some of the world's most unusual risks.

On Jan. 15, the reform of Lloyd's began. Sweeping away 300 years of history, Lloyd's ruling council agreed to limit investors' liability for losses. Unlimited liability has blistered recent investors and scared off new money.

YOU SAW THE COUP, NOW READ THE BOOK

► The world certainly has changed. CNN Vice-President Stuart Loory, the network's former Moscow bureau chief, is promoting *Seven Days that Shook the World* with the help of former KGB Major General Oleg Kalugin. The book is Loory's photographic journal of the bungled August coup in Moscow.

Kalugin is livening up the book circuit with nuggets of KGB lore. Among them: The Rosenbergs were guilty and U.S. defector Edward Lee Howard, "the greatest catch in intelligence," is now "drinking himself to death" in Russia. But Kalugin is having a hard time marketing his own book, *Burning the Bridges*, in the U.S. Publishers here say there's just not enough "torture and cruelty" to make it believable, he says.





New technology can seem a little intimidating.

Investments in information technology have reached 40% of U.S. capital spending. Yet national productivity has not improved since 1973.

So anxiety over new spending is justifiable, even healthy. The evidence is that hardware

alone doesn't pay off. Which is why Andersen Consulting offers something even more powerful.

A way for your organization to seamlessly link technology to your strategies, operations and human resources.

This is a balanced, realistic

approach that puts fear where it belongs. In your competition.

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Where we go from here.™

HARKIN VS. CLINTON: THE TUG-OF-WAR FOR LABOR IS JUST BEGINNING

How badly do the Democrats want to win in November? This badly: Iowa Senator Tom Harkin, a fire-breathing liberal who votes with labor more than 90% of the time, finding himself in the awkward position of scrambling to head off wholesale defections of his union allies. To Harkin's surprise, the defectors are lining up behind Arkansas Governor Bill Clinton, a moderate who criticizes union work rules, opposes blank-check social spending, and once boasted of his state's right-to-work law. "People are looking at electability," says one union political director. "Clinton could probably win."

The fight for labor's political soul is now in full swing. But Clinton is scoring heavily among public employee unions, even tough governors and state government workers are usually mortal enemies. He has impressed leaders of the 1.3 million-member American Federation of State, County and Municipal Employees with a December appearance. On Jan. 6, President Gerald R. McEntee freed state council leaders to work for candidates they support—which will help Clinton. The American Federation of Teachers has more potential convention delegates pledged to Clinton than any other candidate in the New York, Illinois, Pennsylvania, and Maryland primaries. And the National Education Assn., which is not affiliated with the AFL-CIO, is attracting large numbers of Clinton delegates, too.

MERGERIZED. Harkin forces are counterattacking. The Iowan is reminding labor leaders of Clinton's support for free trade with Mexico. After personal appeals from Harkin, several have come out for him, including the head of a New Hampshire local of the Electrical Workers and the president of the Washington local of the United Food & Commercial Workers. "The perception that there's a lot of labor support for Clinton has merged Tom," says Harkin Campaign Manager Tim Raftis.



CLINTON: SAPPING HARKIN'S SUPPORT

Harkin fans among the big industrial unions, including the United Auto Workers and the Machinists, want the AFL-CIO to abandon its strategy of waiting until after the July Democratic convention to endorse a candidate. Until the federation's executive council backs a candidate, affiliated unions and state federations are barred from endorsing any of them.

At a Jan. 10 meeting of union political directors, Harkin supporters pushed the idea of asking the executive council to endorse a candidate—presumably Harkin. For the auto workers, national health insurance, jobs, and the economy are the central issues. "Harkin has always been right on all of them," says Joe Mangone, the UAW's political director.

An endorsement would be an organizational bonanza, especially in the industrial Northeast and Midwest. It would put the foot soldiers, phone banks, and PAC money of the AFL-CIO and its affiliates at the disposal of the chosen candidate.

POLLING THE TROOPS. AFL-CIO President Lane Kirkland, who had planned to hold off on a preconvention endorsement this year, has been polling members of his executive council for their views. But an endorsement requires a two-thirds vote, and there seem to be enough Clinton backers and undecideds to block action. As a fallback, the industrial unions are pushing for

an end to the ban on endorsements by individual unions.

In 1988, Democrats viewed labor's backing as a mixed blessing: They wanted the troops and money but dreaded being tagged as in thrall to Big Labor. But in the compressed 1992 campaign, labor's support has suddenly become more valuable. And in an election that even George Bush says is about "jobs, jobs, jobs," politicians as diverse as Harkin and Clinton are discovering that the union label may be a good thing to wear.

By Susan B. Garland, with Paula Dwyer

CAPITAL WRAPUP

CANDIDATES

Interest-group forums, now a staple of the Presidential campaign trail, will pose major pitfalls for Democratic candidates in the next few weeks. To get their help in primaries, candidates have to appear before a variety of activists' groups, usually offering them promises that often come back to haunt them. The season opens on Jan. 25, when the five major Democratic contenders will appear before Jesse Jackson's Rainbow Coalition in Washington. The contenders, in taking questions from the floor, are sure to be pressed to take positions on affirmative action and other racial issues that

could prove dangerous in the general election. Then, on Feb. 1-2, the contenders are off to Tallahassee, Fla., where Citizens to Preserve Florida will grill them on issues of development and the environment.

SLOGANS

In the year since President Bush launched Operation Desert Storm, Democrats have fretted about a way to counter the Administration's success in the Persian Gulf war. A bumper sticker cropping up on cars all over New Hampshire suggests that they've found one good approach. It reads: "Saddam Hussein still has his job, but I lost mine."

DELEGATES

While candidates tramp around New Hampshire, their agents are working the biggest delegate pool of all: Congress. Of the 325 Democratic representatives and senators, 262 will be convention delegates. Although Senators Tom Harkin (Iowa) and Bob Kerrey (Neb.) would seem to have a natural edge among their colleagues, Arkansas Governor Bill Clinton expects to do well. Richard Moe, former chief of staff to Vice-President Walter F. Mondale and an ally of Majority Leader Richard A. Gephardt (D-Mo.) is soliciting support for Clinton on Capitol Hill.



LONG DAYS, LOW PAY, AND A MOLDY COT

How Western Europe is exploiting cheap labor flooding in from the East

This wasn't how Zbyshek K. had imagined paradise. First it was the madly screeching electric drills, the fine metallic dust that turned his saliva black, and the acrid reek of shiny paint being hand-sprayed on new Mercedes trucks in the paint shop. And all illusions were dashed when he saw the tiny room, with its moldy cots, that would be home for him and three other Poles for the next two years.

The ad in a Polish newspaper last March didn't mention this. Construction and service company Polkat was looking for mechanics willing to work abroad, promising to make them rich. Zbyshek, 28, a metalworker from Katowice, volunteered. A few weeks later, teamed up with 60 other Poles, he was thrust into the shocking din and stench on the factory floor of Mercedes contractor Gebroeder Wackenhut in Nagold, on the edge of Germany's Black Forest. The Warsaw company had "rented" the work team to the truckmaker.

Meet the new European underclass. While leaders of the European Community are busy hammering together a union of free and equal Western Europeans, armies of Eastern European skilled laborers—Polish metalworkers and Croatian mechanics, Czech welders and Russian bricklayers—are slaving away in the EC. Conservative estimates put their numbers at 500,000 a year, and they are believed to be working at such prestigious big projects as Frankfurt's new airport and the new Euro Disney Resort going up near Paris. A Euro Disney spokesman says construction workers at the site are the subcontractors' responsibility.

IN THE COLD. The cheap workers flooding the West are the result of social cataclysms shaking Eastern Europe. As communist regimes crumbled, traditional state-run industries imploded from Siberia to Siberia, kicking masses of laborers out in the cold. Like Zbyshek, they are now selling their skills to Western

companies for a bit of hard cash. They put up buildings and factories, pave roads and make cars, lay pipelines and till fields across Europe. Most work off the books, get paid a fraction of going wages, live in crowded quarters, and toil extra-long hours, with no legal rights.

They differ starkly from the Turks, Italians, and North Africans who came in droves more than 30 years ago, invited by governments to do the dirty jobs—with minimal benefits—that locals shunned. The new crop of foreign workers lacks even that minimal status. While Eastern Europeans, mostly skilled workers, happily leave home for jobs in the West, they don't suspect they are about to fall prey to labor traffickers who trap them in a web of illegality and exploitation. But they stay because they can't afford to leave. Behind them are millions of Russians, who could lose jobs once reforms kick in at home.

The widespread use of cheap migrant

labor suits many interests. Dirt-poor Easterners get work and send hard currency home. Western European companies keep costs of skilled labor down. The savings can be irresistible: Last year, Germans paid \$21.53 an hour in average wage and benefit costs, way above \$14.77 in the U.S. and \$12.64 in Japan. For their part, politicians see the influx as a cheap way to ease pressure on their impoverished Eastern neighbors. By letting Eastern European labor trickle in, the West avoids having to spend more aid or buy their goods.

While providing some short-term benefits, the mounting traffic in labor is increasingly drawing fire. Law-abiding companies complain that offenders get unfair cost breaks. Others say it robs government coffers of tax revenue. And it threatens to scuttle efforts to standardize Europe's labor market. Warns Bernd Hof of the German Economic Institute in Cologne: "Flows of skilled migrant workers from the East distort labor markets in the West. And their cheap labor will have a long-term negative effect on companies using it." Hof says that while bottom costs may improve the bottom line, reliance on cheap labor delays investment in modernization and hurts companies' competitiveness in the long run.

CEBERG'S TIP. But such farightedness is rare, as recession has squeezed bottom lines at many midsize companies. A spot check among German construction companies found that 90% of them use illegal Eastern European workers, says Jürgen Lehlbach, a labor-fraud cop in Hessen. Adds Hans von Hüppe, an official at the Federal Labor Office in Nuremberg: "What we've been stumbling across is only the tip of an iceberg."

Take the case of Zbyshek K. Since coming to Nagold last May, he has worked six-day, 60-hour weeks, interrupted only by two brief, 1,250-mile car trips home. He usually jumps out of bed at 5 a.m. and falls asleep, dog-tired, at around 10 p.m. While his take-home pay of \$3 an hour is four times wages in Poland, it is barely a quarter of what Germans earn at the same factory.

Such conditions are possible because Bonn has too few resources to police temporary work contracts introduced under agreements with Eastern European governments. At Wackenhut, for example, the Poles who were brought ostensibly to work on a specific project

are found laboring alongside Germans at several tasks. Yet the union wage and overtime rules don't apply to them. And Polkat is raking it in. From the earnings of the team rented to Wackenhut, Polkat skims off about \$600,000 a year.

As part of such a scheme, Polkat pays Zbyshek's rent; his lunch money comes from Wackenhut. He spends next to nothing on himself, saving as much as he can to meet his goal—an apartment for his young wife and baby.

But the grueling work, cramped housing, and the sense of unfairness are whittling down his resolve. "If I could, I'd go home right now," says the tall, haggard Zbyshek. He pulls hard on a cigarette and quickly glances around the parking lot, fearing that someone

cops say Eastern European labor traffickers are often managers of formerly state-owned companies who have lost their customers in the East but kept their marketing knowhow and contacts in the West. Now, they are in business for themselves, often colluding with corrupt government officials. Some may be establishing contacts with organized crime, German labor police believe.

'NO CONTROL.' If companies step over into illegality, prosecutors face huge obstacles in proving it. And they are hindered by lack of manpower and internal government squabbles. But those few companies caught in the nets of the labor police range from small subcontractors to the big guys. Big-name companies claim innocence. "We have no control over what our sub-contractors or even subcontractors are doing," says an official of Bilfinger & Berger, a German construction company. Because subcontractors are responsible for their laborers, "labor abuses would have nothing to do with our company," insists Nicola Ginsburg, an official for Costruzioni Callisto Pontello, a large, Florence-based builder. "We're not involved."

It all adds up to trouble, and more lurks around the corner. Thousands of Russians, Lithuanians, and Ukrainians are working at low-paying jobs in Poland, Hungary, and Czechoslovakia. Next stop is the West. In Warsaw, labor traffickers gather in front of the Palace of Culture & Science, jostling and waving signs to lure former Soviets to work in the West. "It's worth the effort," boasts one agent. "For the money we offer, a Pole would just kick you in the teeth."

As more laborers pour in, pressure grows for an EC-wide migrant-labor policy that would discourage the abuses. If Europe "can legitimize the inflows of East European workers," says ILO economist Guy Standing, it stands to gain in the long run. By sending money home and returning with firsthand knowledge of a market economy, migrants encourage growth in their home countries and ease the pressure for Western aid.

Zbyshek, for one, wants to open a car-repair shop when he returns to Katowice. But, he says, "I've learned how not to run things." His brush with real-life capitalism has been a powerful lesson.

By Igor Reichlin in Nagold, with Sabrina Kiefer in Rome, Charles Hoots in Paris, Jacek Dobrowski in Warsaw, and bureau reports

WHERE EAST EUROPEANS SWEAT

As many as 500,000 to 1 million migrant laborers flood the West each year. Here's where they go and what they do:

Country of employment	Country of origin	Industry
GERMANY	Poland, Yugoslavia, Czechoslovakia, Russia	Construction, machine-building, software, hotels, restaurants
FRANCE	Poland, Czechoslovakia	Construction, agriculture, restaurants
ITALY	Poland, Yugoslavia, Albania	Construction, agriculture
BRITAIN	Poland, Czechoslovakia	Construction, agriculture

DATA: BW, GERMAN LABOR FRAUD OFFICE

might overhear him: Polkat managers forbade workers to talk to BUSINESS WEEK. "But there's no way I can earn that much in Poland," he says. "So I'm stuck here."

It's a common sentiment among Eastern Europeans laboring in the West. While there's no outright coercion to stay, most are willing to clench their teeth because the alternative is worse. Unemployment in Eastern Europe, including at least 12 million in the former Soviet Union, stands at more than 16 million people, estimates the International Labor Organization. But welfare rolls in the region are set to zoom to more than 30 million once market reforms in Albania, Czechoslovakia, Romania, and the former Soviet republics take hold.

This abundant pool of cheap, desperate labor has lured con artists who act as brokers to companies. Evidence is mounting that, drawn by the smell of megaprofits, organized crime is muscling its way into labor trafficking. Even former communist bosses of Eastern Europe are players. Labor fraud

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EUROPE

EUROPE, TOO, IS EDGY ABOUT IMPORTS—FROM AMERICA

A 1991 U.S. trade surplus of \$17 billion could fuel protectionism

The rhetoric had a familiar ring. Back home after his ill-fated mission to Japan, President Bush was talking tough about world trade to American farmers. This time, the culprit was the European Community. He charged the Europeans with erecting a protectionist "Iron Curtain" to keep out U.S. goods.

But wait a minute. Apart from agriculture, Bush really has little to complain about. When the final 1991 trade figures are added up, they will show that the U.S. ran a stunning \$17 billion surplus with Europe, a nearly threefold increase over 1990's surplus of \$6 billion (chart). Now, the question is whether American exporters can consolidate their gains and sustain the surplus, especially if the dollar strengthens in coming months. And if they do, will the U.S. boom touch off a wave of protectionist ire throughout Europe?

COMBUSTIBLE. Fueling the trade bonanza is a potent combination of a cheap dollar, higher-quality products, and Yankee selling ingenuity. U.S.-made computers, airplanes and parts, and factory-automation gear are pouring into Europe. The American trade juggernaut now has

racked up its first surplus in 10 years with Germany, Europe's biggest economy, where American car imports have doubled in a year. Of the EC countries, only Italy continues to run a surplus with the U.S. "There has been a change in the competitiveness of the dollar and U.S. [industry] that could be long-lasting," says David Kern, chief economist at National Westminster Bank PLC.

The widening trade gap with the U.S. illustrates competitive problems in sectors ranging from agriculture to cars and electronics. The EC already suffers from a chronic and growing deficit with Japan of \$28 billion—despite a host of entry barriers on cars and consumer electronics. The European recession, combined with increased competition from the U.S. and Japan, is putting enormous pressure on such European flag carriers as British Steel, Italy's Olivetti, and France's Groupe Bull.

A persistent trade

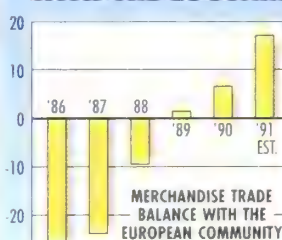
deficit could prove combustible. So far, most of the shouting has been confined to a negotiating session of the General Agreement on Tariffs & Trade (GATT). There, issues such as agricultural subsidies and government support of aircraft industries have become especially sensitive. Now, trade issues are beginning to spill over into other forums. At a late January meeting of the Group of Seven industrial nations, European politicians are expected to mount a full-court press to persuade the U.S. to help strengthen the dollar and balance trade. Frictions could intensify if there is no GATT deal, Washington tries to keep the dollar low, and Bush continues his posturing on trade. "What we see coming out of the White House every day is dismaying," says Stefano Micossi, chief economist of Confindustria, Italy's big employers' federation.

'FAIR ACCESS.' In the worst-case scenario, some European politicians could start pushing managed-trade deals, especially as important national companies continue to founder. Already in the past several weeks, the French have begun state-assisted restructurings of such industrial giants as Bull and Thomson Consumer Electronics.

Up to now, the U.S. has enjoyed its trade windfall and avoided the wrath of Europeans. One reason is simple perceptions: Americans are just not envisioned as the villains that the Japanese are held to be. Helping America's benign image is the openness of U.S. markets to European products. "French products have fair access to the U.S., but they don't in Japan," notes a French government trade official. "You simply can't compare the two." So even though the biggest surplus is in such high-tech American goods as computers, telecommunications gear, and semiconductors, it has generated none of the heat that similar Japanese products have.

What's more, the goods that the U.S. is selling to Europe are not as politically charged as Japanese exports. U.S. carmakers manufacture in Europe and buy virtually all their parts locally. U.S. exporters, such as Intel, Honeywell, and the Foxboro unit of Britain's Siebe, are flooding

THE U.S. SURPLUS WITH THE EC SOARS



▲ BILLIONS OF DOLLARS

DATA: COMMERCE DEPT. BW EST.

Europe with capital equipment that industrialists are using to modernize their factories.

George A. Magnus, chief international economist at S.G. Warburg & Co., argues that circumstances will moderate the American trade advantage before it gets out of hand. The U.S. surplus, he says, is going to shrink as the dollar strengthens during an American economic recovery.

Maybe so, but there is evidence that a

surplus, albeit smaller, could be a durable thing. Like the Japanese in the U.S., American companies are selling more products that Europeans want. For example, the U.S. units of British conglomerate BTR PLC are hitting Europe hard now with meters and control devices for upgrading factories. "Once you're in and accepted, the business is not going to go away with movements in the dollar," says Robert Faircloth, BTR chief operating officer.

For Americans, the surplus with Europe is one of the few bright spots in the economic outlook. And while trade relations with Europe have remained good, it will take a lot of work to keep things friendly as the recessions take their toll on both sides of the Atlantic. Neither side wants a replay of the messy Bush spectacle in Japan.

By Richard A. Melcher in London, with Patrick Oster in Brussels and Stewart Toy in Paris

THE COMMONWEALTH

FEAR AND TREMBLING AMONG THE KREMLIN WATCHERS

Sovietologists find demand is plunging for their academic wares

It wasn't exactly a shining moment in the annals of Soviet punditry. In mid-December, Princeton University Soviet specialist Stephen F. Cohen and Marshall I. Goldman, associate director of Harvard University's Russian Research Center, appeared on a television talk show to discuss the end of the Soviet Union. The pair banged heads on most issues, with Cohen suggesting that Goldman knew virtually nothing about Russian politics. Enraged, Goldman blustered: "If you're going to insult me and give me a lecture, I have a right to defend myself."

This is more than a bit of feuding among comrades in armchairs. With demand for their academic wares plunging, Kremlinologists are feeling defensive. Once upon a time, sighting a new Politburo heavy atop Lenin's tomb on May Day was enough to guarantee a year's funding. But the rapid-fire collapse of the old Soviet Union has been humbling. "Nobody in the academic community really thought the Communist Party would ever self-destruct," says Harvard Russian scholar Adam B. Ulam. Adds Princeton's Cohen: "Sovietology has been exposed as intellectually bankrupt, and it has to be completely rebuilt."

Cohen and his colleagues have plenty to be embarrassed about. With few exceptions, U.S. scholars were slow to detect the economic rot that undermined the empire. Also, most were too optimistic that Mikhail Gorbachev could contain the forces that tore the union apart.

NEW LABELS. But even if they had been better forecasters, the Sovietology industry would be hurting. The core business, assessing the Russian military threat and divining Kremlin power struggles, was once heavily funded by U.S. intelligence services but now is about as useful as a fistful of rubles. And private foundations are taking a

hard look at the funding they give to U.S. Sovietologists.

Imagine how the bigwigs at Columbia University's prestigious W. Averell Harriman Institute for Advanced Study of the Soviet Union must feel. The center is looking for a new name and revamping its curriculum. Last spring, it quickly threw together a course on the politics of the Russian Republic, and it plans to build up its programs on nationalities and non-Russian languages.



Even those changes may not be enough to attract foundation support for Soviet research. "The field is still too Moscow-centered," says Paul Balaran, a Ford Foundation grant director. As a result, some of the grant providers, including the MacArthur Foundation, may spend their money closer to the source, supporting research by newly liberated scholars in Russia. Ford is likely to boost its \$5 million in annual grants for studies of the former Eastern bloc.

INSULT SWAPPING. Another threat to the foreign-policy academic Establishment: upstart economists, think-tank policy wonks, and other advice purveyors now streaming into Moscow. In fact, an intellectual firestorm has broken out along the banks of the Charles River between Harvard's Russian center and its John F. Kennedy School of Government. Goldman and other Russian scholars claim they were locked out of recent efforts by Graham T. Allison Jr., former dean of Kennedy, to plan a swap of massive Western aid for Soviet economic reform. In response, Allison says there wasn't enough time to bring in all of Harvard's Soviet specialists.

A transcontinental skirmish is also under way between the Kennedy school and Stanford University's conservative Hoover Institution, which backed Russian President Boris N. Yeltsin while Harvard was supporting Gorbachev. Hooverites grumble that Harvard economist Jeffrey Sachs, who helped concoct Yeltsin's price decontrols, is off the mark with his recommendation of heavy Western aid to the former Soviet Union. "I don't think the [Group of Seven] should pick up where the Soviet central government left off," says Judy Shelton, a Hoover economist.

Even so, making grand pronouncements about the ever-changing situation in Moscow—or Minsk—is a tricky business. Says Jerry Hough of Duke University: "The media are asking us to be astrologers." Hough knows of what he speaks. In late 1990, he wrote that "it's quite wrong to think that the Soviet Union is moving toward something as loosely structured as the Articles of Confederation envisioned... at least not over the next 10 to 20 years." Ouch!

By Brian Bremner in Washington

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CANADA'S CHOICE MAY BE FREE TRADE OR FREE HEALTH CARE

In 1990, when Bob Rae was elected as Ontario's first socialist premier, he planned to expand the generous social programs that already made Canada's key province a North American Sweden. But Ontario's deepest recession since the 1930s has dashed those dreams. Now, Rae is steeling himself for a Jan. 21 televised address, in which he will ask voters whether they would rather have cuts in those cherished programs or a jump in the budget deficit to over \$10 billion, which would further undermine business confidence.

Not only in Ontario but across the country, the Canadian way of providing first-class health care free to all citizens, as

well as a generous safety net to the poor and unemployed, is under assault. Ontario has already cut hundreds of hospital beds, and Toronto faces cutbacks in services ranging from police to nursing homes. The changes have been prompted not only by the recession but also by the sweeping downsizing of Canadian industry triggered by the U.S.-Canada free-trade pact of 1989. Some 100,000 Canadian manufacturing jobs, or 13% of the total, have vanished since it took effect. An additional 80,000 are expected to disappear this year. The resulting plunge in tax receipts is forcing a slash in social programs. Because these benefits are so central to Canada's identity, it's not surprising that Canadians are asking whether their country can carve out a decent niche for itself in a unified North American market.

COLD CLONE? Unhappily for Canada, free trade has exposed the country's lack of competitiveness. A widely discussed study by Harvard business school guru Michael Porter found that protective barriers had allowed Canadian unit labor costs in the 1980s to rise twice as fast as those in the U.S. Proving this point, millions of Canadians now regularly troop across the

border to get far-lower prices on everything from milk to clothing—devastating Canadian merchants. Three of Canada's best-known retailers will shutter over 300 of their outlets, while Marks & Spencer PLC is reappraising its 270-store Canadian operation.

Anger over the rotten economy is leading to a surge of nationalism. Gallup Canada pegs opposition to free trade at a record 54%. The critics say the deal is turning Canada into a cold-hearted clone of the U.S. "We will restructure to the point where we won't be able to maintain the differences in social programs," says anti-free-trade leader Maude Barlow.

Such critiques are forcing Prime Minister Brian Mulroney to take a much tougher line toward the U.S. The two countries are battling over beer, lumber, and car shipments to the U.S. from Canada's Japanese plants. The odds that Canada will go for a trilateral free-trade deal with the U.S. and Mexico have fallen.

Mulroney is planning to run for reelection next year, when his term ends. But his public approval ratings are mired at the 20% level—largely because of economic frustration that's likely to increase if, as predicted, the unemployment rate rises above its current 10.3%.

More bad economic news could be fatal to Mulroney and dangerous to free trade. "Mulroney has staked his credibility on the premise that free trade" would work smoothly, notes Gordon Ritchie, who helped negotiate the deal. "That premise is looking pretty soggy." Ritchie worries that the next election could even produce a government committed to repudiating free trade. That's a threat the U.S. will have to weigh carefully in its dealings with its most important trade partner.

By William C. Symonds in Toronto



GLOBAL WRAPUP

RUSSIA

The Bush Administration is finding out how tough it is to do business in the former Soviet system. The U.S. wants to sell \$650 million worth of badly needed grain at bargain prices. But before that sale can go forward, Vnesheconombank, Moscow's official foreign-trade bank, has until Feb. 1 to pay up for U.S. grain already shipped. Trouble is, the bank has frozen most hard-currency assets and has itself become all but moribund. A Jan. 13 announcement said a new Russian bank would take over most of its functions.

So the U.S. is in a quandary: Should it call off the sale or trust that the new

republics will eventually take responsibility for old Soviet debts? Finding out who's in charge "is becoming a serious problem real fast," says an Administration official.

ALGERIA

The resignation of Algerian President Chadli Benjedid on Jan. 11 and the suspension of the runoff elections slated for later this month may help international oil companies. Moslem fundamentalists, who were likely to win an overwhelming majority in Parliament, are determined to scrap the North African country's new rules encouraging foreign oil drilling. About 15 foreign oil companies, including Exxon,

are now vying for exploration and production deals in Algeria—which had previously been closed to them.

EUROPE

The election of Egon Klepsch on Jan. 14 as President of the European Parliament is one more sign of growing German influence in the European Community. Klepsch, a Christian Democrat, is a close ally of Chancellor Helmut Kohl. Until recently, the Germans had been wary of throwing their weight around, but last month they pushed the EC to recognize Croatia. What's more, high Bundesbank interest rates have been forcing most other EC members to jack up their own rates.

LEARNING FROM JAPAN

Like countless suppliers before him, James J. Lohman was seething as he left a 1985 meeting in Detroit. Three years earlier he had mortgaged his company, Excel Industries Inc. in Elkhart, Ind., to develop a better way to make car windows. His innovations promised to help Ford Motor Co., Excel's top customer, slice inventory and assembly costs. Yet now, Ford was planning to bring the technology in-house—a move that would ravage Excel.

Lohman still recalls with satisfaction what happened next: Ford couldn't master Excel's process. So, in a humbling *rapprochement*, America's No. 2 auto maker proposed a sweet deal. For \$18 million, Excel would buy Ford's window factory in Fulton, Ky. Then, to keep some control, Ford would acquire 40% of Excel for \$25 million. Ford also agreed to buy 70% of its windows from Excel through 1993. By last year, the smaller company's sales had hit \$350 million, nearly

four times its 1985 revenues, and Ford had saved millions. Emboldened, Excel has plowed \$4 million into better manufacturing systems. Today, it can equip new Ford models a year faster than before, helping Ford shorten its new-product cycle. Declares Dennis F. Wilke, general manager of Ford's glass division: "There's a spirit of trust. We're both trying to find the most efficient solutions."

Besides making sense, the Ford-Excel deal speaks volumes about U.S. frustration at being overtaken by Japan. For a decade, American companies have been altering their game to play Japanese-style, streamlining their lumbering corporate hierarchies to focus on teamwork, quality, and speed. But no matter what they tried, most fell further behind. "It's like we're still playing single-wing football, while they've found the forward pass," says Marshall C. Phelps Jr., director of governmental programs at IBM.

LEVELING THE FIELD. Well, the contest isn't over yet. In the past six years, hundreds of companies, from big IBM to little Excel, in industries as diverse as computers, semiconductors, autos, farm implements, and motorcycles, have shared Ford's revelation. They, too, are revamping their cultures and recasting their investment practices to form cooperative links both vertically, down their supply lines, and horizontally, with universities, research labs, and their peers. Encouraged by the Bush Administration's leniency toward antitrust, even direct competitors are slipping between the sheets. The most astonishing deal may be the one last June between IBM and archival Apple Computer Inc. to jointly develop personal computers and software.

These ventures may do more than any Presidential mission to help level the playing field with Japan. Indeed, says David E. Cole, direc-

**HOW A FEW
U.S. GIANTS
ARE TRYING TO
CREATE
HOMEGROWN
KEIRETSU**





THE *KEIRETSU*-LIKE MOVES OF U.S. COMPANIES

American industry is trying to regain its strength in world markets by improving the quality of products and getting them to market faster. What's emerging is an enterprise model that borrows from Japan's *keiretsu*, which rely on cooperation among a group of manufacturers, suppliers, and finance companies

RESEARCH

► In the 1980s, competitors in many U.S. industries began pooling resources to do 'precompetitive' research on technology used for distinctive products. They created more than 250 R&D consortiums, starting with Microelectronics & Computer Technology Corp. in 1982 and Semiconductor Research Corp. in 1983. Many companies now participate in several consortiums

► U.S. companies have begun forming direct research links with competitors. For example, with the help of \$120 million from the federal government, Detroit's Big Three are jointly working on new battery technology for electric cars

DESIGN

► Manufacturers are asking their strategic suppliers—their most trusted ones—to participate in new-product design programs at the outset. Known as concurrent engineering, this process helps avoid time-wasting pitfalls that often occur in the late stages of product development

► The best suppliers are being given total responsibility for designing parts or subsystems

FINANCING

► Companies such as IBM, Ford, and Digital Equipment are taking equity positions in strategic suppliers or in startups that are working on promising technology

► Novellus Systems Inc., among others, has given suppliers loans for capital equipment—or has bought it for them

► IBM, among others, sometimes pays suppliers up front, instead of on delivery, for research or product-development work

PRODUCTION

► Many manufacturers are giving single-source contracts to strategic partners. These contracts set strict quality, cost, and delivery goals for components that are delivered just in time to be put into the final product. Suppliers that can't measure up—80% of the total in some industries—are out

► Manufacturers and suppliers are becoming partners in production. At Deere & Co., workers now solve problems with their counterparts at suppliers such as McLaughlin Body Co.

MARKETING

► Manufacturers and suppliers are selling and servicing each other's products. For instance, Digital Equipment Corp. is taking over sales of Cray Research Inc.'s smallest supercomputer

tor of the University of Michigan's Office for the Study of Automotive Transportation, U.S. industries finally are learning to compete in the same league with the monoliths the Japanese call *keiretsu*, or business groups. Cole sees a new U.S. industrial pattern emerging. He calls it "an American-style *keiretsu*."

Such a comparison can't be taken too literally, of course. U.S. laws enacted during the 1930s broke up huge multi-company trusts such as the powerful House of Morgan, which included banking, steel, railroad, and shipping companies. Fiefdoms like that were probably America's closest counterpart to Japan's horizontal *keiretsu*. These giants are collections of dozens of major companies spanning several industries and held together by cross-shareholdings, old-boy networks, and a compulsion to hammer rival groups. At the hub of each is a bank or cash-rich company that provides low-cost, patient capital. Together, the Sumitomo, Sanwa, Mitsui, Mitsubishi, Fuyo, and Dai Ichi Kangyo groups account for roughly one-fourth of Japan's total business assets and revenues.

PYRAMIDS. Nor would Western culture tolerate vertical *keiretsu*, Japan's other variety. These are pyramids of companies that serve a single master. Every large manufacturer, whether it belongs to a horizontal group or not, dictates virtually everything—including prices it will pay—to hundreds of suppliers that are often prohibited from doing business outside the *keiretsu*. At the pyramid's bottom is a swarm of job shops and family ventures with primitive working conditions and subsistence-level pay and profits.

But if pure *keiretsu* are un-American, the U.S. can still learn from them. The horizontal groups provide security and stability to promote the risk-taking and long-term investment often shunned by U.S. companies. And by collaborating on research and production, *keiretsu* members regularly deliver new products ahead of lone-wolf rivals. Toyota Motor Corp., one of 24 companies in the Mitsui Group, drives its new-car designs into showrooms in four years, vs. five to eight for Detroit and Europe. And even

the pyramids of indentured companies, with their emphasis on continual cost reduction and quick response, prove the value of having close supplier ties.

U.S. companies can no longer ignore these advantages, say experts such as Lester C. Thurow, dean of Massachusetts Institute of Technology's Sloan School of Management. Across the spectrum of industrial technology, from advanced materials to next-generation semiconductors and futuristic "agile" factories that ultimately may turn out customized cars in a few days, the costs of research and development are soaring—at accelerating rates. Tomorrow's keystone technologies are so expensive to nurture, says Deborah L. Wince-

build an industrial system that is technologically stronger and swifter afoot than Japan's. Three years ago, for instance, Digital Equipment Corp. acquired a 5% stake in MIPS Computer Systems Inc., which is 25% owned by Japan's Kubota Corp. Then, DEC used a MIPS chip for new workstations instead of designing a chip of its own. Because of such moves, "we're more efficient as a technology organization than ever before," says Henry A. Crouse, DEC's vice-president for strategic relations.

Despite such assessments, there's plenty of skepticism whether a *keiretsu*-style approach will work in the U.S. Many large manufacturers still treat suppliers like disposable diapers, changing them frequently to get the best price. And playing suppliers off against each other—which even Ford still does—keeps them short of capital to modernize. That's one reason U.S. factories have more outmoded equipment than the plants of other industrialized countries: The average age of the U.S. equipment is around 14 years, which experts believe is double the figures for Japan and Europe. Contentious tactics also spawn distrust, which may help explain the lackluster record, so far, of the 250-odd R&D consortiums formed in the U.S. since 1982. Still, TRW Inc. Chairman Joseph T. Gorman, who accompanied President Bush on his recent trip to Japan, thinks *keiretsu* experiments are a must. "Unless we move in that direction, we

don't stand a chance against the Japanese," he says.

GOING HOME. Such sentiment is richly ironic. People forget that Henry Ford started out totally reliant on suppliers, notes Susan Helper, assistant professor of economics at Case Western Reserve University in Cleveland. All Ford did was bolt on a body and wheels. The chassis, engine, gearbox, and other parts were built by suppliers and assembled by Dodge Bros. But by the 1930s, Ford was vertically integrated down to its own steel plant, partly because its suppliers couldn't make quality parts.

Now, Ford and others are returning to their roots. Building on the Excel deal,



SILICON VALLEY
GROUP IS IN THE
CHIPS WITH IBM

SVG executive Sarkissian and IBM President Kuehler cut a deal that puts microchip lithography in IBM's circle—for the long run

Smith, Assistant Commerce Secretary for technology policy, that U.S. companies "cannot commercialize them" without banding together and sharing the risks. This is especially true given the compressed time frames within which new products must get to market.

In short, there's a pressing need for U.S. manufacturers to develop something similar to *keiretsu*. What they're building could even be better: alliances where collaboration reinforces capitalism at all levels. American suppliers, more than their Japanese counterparts, provide many of the advances that drive innovation. Elevate their role, and some executives believe that America can

FORD'S KEIRETSU

After selling its defense unit and 80% of its farm-tractor division, Ford is focusing on its automotive and financial-services businesses. It is extending its reach in these fields by means of acquisitions, equity holdings, international tie-ups, and research consortiums

VEHICLE ASSEMBLY

Company	Ford equity stake
MAZDA Japan	25%
KIA MOTORS Korea	10
ASTON MARTIN LAGONDA Britain	75
AUTOLATINA Brazil, Argentina	49
IVECO FORD TRUCK Britain	48

Example: Ford buys vehicles from Mazda for sale in Japan, and vice versa. Mazda engineered Ford's latest Escort subcompact

PARTS PRODUCTION

Company/Product	Ford equity stake
CUMMINS U.S. Engines	10.8%*
EXCEL INDUSTRIES U.S. Windows	40.0
DECOMA INT'L Canada Body parts, wheels	49.0

*Ford has an option to acquire an additional 10%

Example: Cummins is designing and building diesel engines for Ford medium-duty trucks

FINANCIAL SERVICES

■ Through seven wholly owned units, Ford extends consumer and commercial credit. It issues car loans, mortgages, and credit cards, does industrial leases, and finances dealer purchases of cars

MARKETING

■ Ford owns 49% of Hertz
■ Hertz and other rental-car agencies are among Ford's largest automobile customers

RESEARCH & DEVELOPMENT

■ Ford belongs to eight consortiums that do research into environmental issues, better engineering techniques, materials, electric-car batteries, and the like

Example: Ford, GM, and Chrysler belong to consortiums that do so-called 'precompetitive research' into the use of plastics in cars, that study methods for recycling those plastics, and that are developing batteries for electric cars

DATA: BW

Ford in late 1990 paid \$100 million for 0.8% of Cummins Engine Co., which next fall will supply low-pollution diesel engines for Ford medium trucks. Ford thus avoided a \$300 million investment to do the work itself. And Cummins got much-needed cash to fund key R&D for its flagship product, big diesel-truck engines. Over the past few years, Ford has also passed the peace pipe to General Motors Corp. and Chrysler Corp. so the Big Three don't waste money on duplicate research in such "precompetitive" technologies as new materials and electric car batteries.

But the company with the strongest keiretsu leanings may be IBM. Prodded by growing competition from Japan, fear of losing an independent supplier base, and a need to cap its spiraling research costs, Big Blue has been dismantling the fence of insularity and self-sufficiency that once surrounded it. In

fact, in what President Jack O. Kuehler terms its "reach-out phase," IBM is helping buttress the infrastructure of the entire U.S. electronics industry. The company's restructuring plans should accelerate the process.

For example, IBM was instrumental in organizing America's first stab at emulating Japanese-style corporate collaboration: the granddaddy of R&D consortiums, Microelectronics & Computer Technology Corp., which does basic research in computer technologies (page 58). IBM attended quietly at MCC's 1982 birth, leery that the Justice Dept. might otherwise scuttle MCC on anti-trust grounds. By 1987, the antitrust climate had

changed, and IBM publicly backed Sematech Inc., the consortium aimed at restoring U.S. leadership in semiconductor-making equipment. IBM became a member and furnished the first chief operating officer for Sematech, which is expected to get a new lease on life, with \$100 million a year in federal funding, when its charter expires this year. IBM's cajoling has also gotten officials from Sematech and Jessi, Europe's better-funded counterpart, to explore potential collaborations.

Beyond such leadership, IBM is doing plenty of deals. In the past 10 years, it has plowed \$1 billion of patient capital into more than 200 companies in Japan, Europe, and the U.S., studiously taking minority stakes in U.S. firms so as not to muddle their entrepreneurial culture. The computer maker also has forked over millions to troubled suppliers as advance payments on future orders or con-

tract research. And IBM can virtually assure the success of a startup by forming a strategic partnership and giving its products a seal of approval. Unlike traditional venture capitalists, "IBM doesn't care much about quick returns on equity," says a former executive of a company that IBM bankrolled. "It wants technology for the long haul."

LOW TECH. Lately, this strategy has involved bigger partners. On the heels of the IBM-Apple agreement came a July deal that shatters more precedents: IBM is teaming up with Germany's Siemens, a competitor, to launch joint production of the next generation of memory chips, 16-megabit dynamic random-access memories (DRAMs), in an IBM plant. Siemens will sell the chips in Europe, the first time IBM chips will have been sold on the open market. Later, Siemens will transfer the technology to its plants.

Dumbfounding as this may seem, it's almost anticlimactic in light of the string of shockers IBM uncorked in 1989 and 1990: It took the once-unthinkable step of licensing its crown-jewel DRAM technology to Idaho's Micon Technology Inc. It signed up Siemens to jointly design the 64-megabit memory chips that will replace 16-meg designs around 1994. And it invited Motorola Inc. to send engineers to IBM's hush-hush Advanced Semiconductor Technology Center in East Fishkill, N. Y., to help develop a new chipmaking technique for use at the turn of the century. "These are things we never would have considered in the past," says one IBM manager.

But there's a strong mo-



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TO ITS NAME
WITH FORD

CEO Lohman's company makes top-notch windows. So Ford locked in Excel as a valued member of its family

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Everyone agrees they're

No one's debating whether open systems are a good idea, but there's plenty of discussion about what open systems are.

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The real goal is to liberate information that's trapped around your company, so more of your people can use it more easily, and to open commu-

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Good, but not everyone agrees how to get there.

communications with customers and suppliers, who no doubt planned their systems without thinking about yours.

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THIS RESEARCH CONSORTIUM GETS ITS RESEARCH TO MARKET

Two years ago, Microelectronics & Computer Technology Corp. (MCC) in Austin was the granddaddy of high-tech research consortiums in more ways than one. Much of its research was long in the tooth, and member companies grumbled about the small returns on their annual seven-figure investments.

Then, Craig I. Fields arrived, bringing the can-do approach that has made the Defense Advanced Research Projects Agency the model for managing innovation. DARPA nurtures research that spawns not only technology but real-world products. Fields had been sacked as DARPA's director for pushing the agency into civilian as well as military technology—just what MCC's board wanted.

At MCC, Fields is blurring the difference between a consortium that does precompetitive research and a *keiretsu* that competes in the marketplace. Dismayed by how much research gets shelved in the U.S., Fields has vowed to keep his cupboard empty. "No matter how successful R&D is," he says, "if it isn't followed by capital investment, it won't have much effect."

'A SPARK PLUG.' So, Fields signed up MCC's first nonmanufacturing member—Andersen Consulting, an arm of Arthur Andersen & Co.—to help other members commercialize MCC's developments. The Chicago company can also market technologies that MCC members ignore, spreading the fruits of research among Andersen's clients—and perhaps attracting new MCC members.

"Fields is a real spark plug," says Charles F. Larson, executive director of the Industrial Research Institute in Washington. "He's helping revitalize the organization." Fred J. Stillger, director of manufacturing engineering services at Advanced Micro Devices Inc., an MCC shareholder, agrees. MCC members can join or opt out of any project. Fields's attitude, says Stillger, is "don't join any project if you won't use it. We're not doing research for the sake of research."



FIELDS: HIS ARRIVAL MADE THE DIFFERENCE AT MCC

Fields especially wants to recruit more small companies, since these are often better than bigger ones at commercializing technology. But entrepreneurial companies also fail easily: They can't afford the R&D to develop a next-generation product.

By joining MCC, they gain access to multidisciplinary research that only giants can normally afford.

Small businesses can sign on as associate members for \$25,000 a year, plus as little as \$125,000 to participate in a project. If that's too steep, Fields will discuss a barter deal with compa-

nies whose technology is useful to MCC. Since Fields took the helm, the roster of associate members has tripled, to 51. Shareholder members include Digital Equipment, General Electric, Hughes Aircraft, 3M, and Westinghouse.

When Fields can't find a small company to market a promising development, he'll create one. MCC has spun off two for-profit ventures, keeping an equity stake in each. The first is Evolutionary Technologies Inc.

Founded a year ago by Katherine Hammer, a former MCC researcher, ETI devises software tools that enable non-compatible data bases to talk to each other. With the proliferation of PCs, data conversion has become a big headache—and cost—for many companies, requiring painstaking translations of data into a common format. ETI's first product came out in November. Its price is \$50,000 and up, with deep discounts for MCC companies that funded the research. Three members have ordered the tools, Hammer says.

The second spin-off, Corporate Memory Systems Inc., recently brought out software that logs operational decisions made by electric utilities. And Fields hopes a third group of researchers will soon become entrepreneurs.

TIMETABLE. Fields's results-oriented approach has caused anguish. Last year, the ax fell on some blue-sky projects—those that Fields felt had a "no-term payoff." Shortly after, Dwight Duston, director of innovative science and technology for the Pentagon's Strategic Defense Initiative Organization, visited several scientists whose programs had been cut. "They said it was painful, but the right thing to do," recalls Duston.

Now, there's a timetable attached to every project. Long-range programs must meet periodic milestones. Researchers are accountable for delivering practical technology to MCC members. And they know that it will somehow get to market, even if MCC has to finance the venture. With Fields around, it seems, no promising technology is going to grow a beard.

By Otis Port in New York, with John Carey in Washington

MCC AT A GLANCE

Founded: 1982, Austin, Tex.

1992 budget: \$55 million

Staff: 400 researchers, plus 36 scientists on loan from members

Membership: 22 shareholding companies, 51 associate members. These companies are participating in one or more of MCC's eight major projects. A sampling:

ENTERPRISE INTEGRATION This year, MCC plans to launch a nationwide computer network called Elnet, to enable businesses to share commercial data and interact electronically

COMMON SENSE KNOWLEDGE BASE MCC is building a massive data base of everyday knowledge that programmers can use in writing artificial intelligence software

NEURAL NETWORKS MCC is doing work on computer circuits, modeled after the brain, that excel at, for example, recognizing patterns and dealing with incomplete or contradictory data.

SUPERCONDUCTIVITY MCC is developing ultrafast computer chips made with high-temperature superconducting materials

DATA: MCC, BW

ive now: fear. That has been mounting since 1981, when IBM began doing "technology audits" of the competitiveness of its suppliers vs. their Japanese rivals. IBM was stunned by its findings. In the U.S. and Europe, its handpicked vendors "were becoming less competitive—at an alarming rate," recalls Kuehler. If the trend continues, IBM and the U.S. electronics industry will be dependent on the Japanese not only for DRAMS but also for critical chipmaking equipment. And since most Japanese suppliers are connected to Japan's giant computer builders, that seems a prescription for reducing IBM to a colony of Japanese business.

INTO THE BREACH. Thus, when Perkin-Elmer Corp. put its microlithography operations up for sale two years ago, IBM leapt into the breach. Lithography machines are the cornerstone of chipmaking: They "print" the complex circuitry that turns silicon wafers into computer chips. During the 1980s, the Japanese all but drove the U.S. from this business. To preserve an American role, IBM helped underwrite a management buyout of one Perkin-Elmer division and lined up California's Silicon Valley Group Inc. to take the other. IBM also guaranteed SVG's instant success, chipping in \$20 million to continue research and ordering enough machines to keep SVG's new unit busy for two years. "IBM was determined to do this for the long term," says Vahe A. Sarkissian, president of SVG Lithography Systems Inc.

Joining Big Blue's circle is not without risk. Sources close to Image Business Systems Corp. (IBS), a three-year-old pioneer in systems that handle documents as graphic images rather than as computer text, say that IBM forced founder David E. Y. Sarna to resign when the New York company ran over budget on development work. IBM had just a 10% IBS stake, worth \$6 million, so it couldn't demand Sarna's resignation. But it hinted that it wouldn't aggressively market IBS's product if Sarna stayed on. IBM denies this scenario. And such reports aren't deterring other companies from seeking a place at IBM's table: Big Blue says it can't begin to handle them all.

Manufacturers must be careful about whom they invite because of the commit-

ment it takes to get suppliers up to snuff, then teach them how to continually shorten design times, cut costs, and improve quality. In the mid-1980s, when Harley-Davidson Inc. cut its supplier roster from 320 to 120, it held classes for the survivors in just-in-time inventory management, so they could cut their own costs. "We buy 50% of the dollar value of our motorcycles from suppliers," says Gary E. Kirkham, Harley's manufacturing manager. "So improvements we made [internally] only got us half way."

Such handholding severely tests the engineering and management expertise of the lead company. Both partners also have to build bridges for exchanging in-

respect as well as price, "both parties win," says Rodney Spear, director of quality assurance at TTI Inc., a Fort Worth company that produces electronic components for Harris Corp., a \$3 billion electronics company. TTI was a survivor when Harris' Electronic Systems Sector winnowed its supplier list from 2,500 to 270 in 1989 and 1990. Now, "we get to think long-term," says Spear, and to make investments that will boost quality and productivity.

Harley shows where this can lead. When the motorcycle maker tried drawing up long-term agreements with its remaining suppliers in 1987, its lawyers produced a 40-page book that codified every detail of performance. At that

point, says James H. Paterson, a Harley executive vice-president, "we threw the lawyers out." Harley produced a brief document outlining goals for suppliers and a way to resolve disputes. "We no longer wage war one against the other," says Kirkham. Instead, Harley battles Honda Motor Co. And it has upped its U.S. share of big-bike sales by 39 points since 1983, to 62%. "It's understandable why the Japanese are doing so well," adds TTI's Spear. "They started implementing these concepts 40 years ago."

USED TOOLS. Financing gets easier when a partnership blossoms. Morton Metalcraft Co., which makes parts for Caterpillar Inc., can't afford the newest machine tools. So, Caterpillar often sells the Morton (Ill.) company used

ones—cheap, says CEO William Morton. Novellus Systems Inc. in San Jose, Calif., sometimes equips suppliers, too (page 60).

Design also goes smoother with a *keiretsu* approach, as farm-machinery giant Deere & Co. has found. Deere jointly designed its combine cabs with McLaughlin Body Co. in Moline, Ill., and has handed responsibility for their production to McLaughlin, which also makes cabs for Ford and Caterpillar. Says combine factory General Manager Richard E. Kleine: "They knew how to get the noise reduction and increased visibility we needed."

One element still missing from the U.S. approach is the patient capital a *keiretsu* provides. A Bush Administra-



**SUPPLIERS GO
ALONG FOR THE
RIDE AT HARLEY**

**Executive Vice-President Paterson
'threw the lawyers out' and
streamlined rules and goals for the
motorcycle maker's suppliers**

formation and nurturing trust, which usually means dealing face-to-face. All this can only work if manufacturers use a lot fewer suppliers. And that usually tilts the buyer-supplier relationship. The buyers are still boss—but are compelled by their increased dependence on suppliers to be an ally and partner.

In return for comfy, long-term contracts, suppliers have to jump when they're told to. "We won't do business with them otherwise," declares Cummins Engine President James A. Henderson. And increasingly, suppliers are being asked to open their books to ensure that profits aren't too fat. Excel does this for Ford. "They know every cost we incur," says Excel CEO Lohman.

Still, when the relationship is built on

tion bank-reform package, debated in the Senate last year, proposed letting manufacturers buy banks, and vice versa. But this idea is all the more controversial because of banking's problems and won't get by Congress soon. That hasn't kept Ford, for one, from making plans for what it would do with a bank. So, says MIT's Thurow, it isn't implausible to imagine, someday, a Ford Group replete with a bank and parts and vehicle makers, tied together by interlocking ownership. "The only question," Thurow adds, "is how soon?"

Skeptics still say that it can't happen

here, that cooperation cuts against U.S. individualism. But "look at team sports," notes Michael L. Dertouzos, chairman of the Commission on Industrial Productivity at MIT. Even within companies, teamwork is more often the rule than not. "The U.S. is extremely good at blending cooperation and individualism," adds Dertouzos. So, a hybrid that combines a *keiretsu's* strengths with Yankee ingenuity might be a formidable competitor.

Two years ago, Hiroshi Kashiwagi, director general of Japan's most prestigious research lab, the Ministry of International Trade & Industry's Elec-

rotechnical Laboratory, told BUSINESS WEEK that if U.S. giants started making better use of their vast storehouse of technology, "we would not be able to compete with them." Today, many companies are embarking on a transformation that may prove him right. It will be a decade or so before the answer is in. But this much is clear: The *keiretsu* approach is one Japanese import that many U.S. companies like.

By Kevin Kelly in Chicago and Otis Port in New York, with James Treece in Detroit, Gail DeGeorge in Miami, Zachary Schiller in Cleveland, and bureau reports

NOVELLUS: THRIVING—WITH A LITTLE HELP FROM ITS FRIENDS

Standing at his office wall, sketching a design for a new machine, 62-year-old Robert F. Graham looks more like a professor than the scourge of his Silicon Valley colleagues. Then the chairman of Novellus Systems Inc. launches a diatribe on his pet peeve: fellow manufacturers of chipmaking equipment who whine about federal tax policies and unfair Japanese competition. The real problem, Graham asserts, is that "the conventional way of doing business in this industry stinks."

Such blunt talk wins Graham few friends. But it's hard to argue with his results. For makers of semiconductor production gear, profits usually plummet in a recession—far more dramatically than the earnings of their chipmaking customers. There's no slump at Novellus, however. In 1991, its third-quarter profits soared 20%, to \$4.4 million, on an 18% jump in sales, to \$20.3 million. For years, it has been the industry's fastest-growing and most profitable public company. "Novellus," says G. Dan Hutcheson, president of VLSI Research Inc., "has become the model for how to run an equipment company."

TWELVE HANDS. What sets Novellus apart is its utter disdain for in-house "metal-bending." Instead of maintaining a costly machine shop, Graham relies heavily on long-term, strategic deals with a few trusted suppliers. Novellus keeps a firm grip on engineering



GRAHAM: LONG-TERM, STRATEGIC DEALS ARE HIS FORTE

to avoid becoming a "hollow" corporation. But it doesn't hesitate to call in outside experts to assist in refining improvements suggested by customers or the company's own engineers. And Graham insists that his hand-picked suppliers pitch in on the engineering, to head off production delays. If a supplier can't justify the cost of needed equipment, Graham buys it for the supplier. Novellus also does the final assembly and testing—with only 12 shop-floor workers. Its sales per employee top \$350,000, nearly double the industry average.

That impresses William J. Spencer, president of Sematech Inc., the Austin (Tex.)-based chipmaking-technology consortium that Graham often blasts. Spencer has trooped through Novellus' headquarters in San Jose, Calif., with a delegation of industry officials, and he would like to see the Novellus approach applied to "a broader setting." But others warn that the strategy is no

cure-all. Novellus is "going to find it harder as the company gets bigger," predicts James L. Callahan, president of Leybold Vacuum Products Inc., a Novellus supplier in Export, Pa.

The acid test may come soon. Last November, Novellus unveiled a machine that combines its chemical vapor deposition (CVD) gear, used in creating the ultratiny circuit wires on silicon chips, with add-on modules that do other work, such as cleaning silicon wafers. So, Novellus now competes with several Japanese suppliers plus

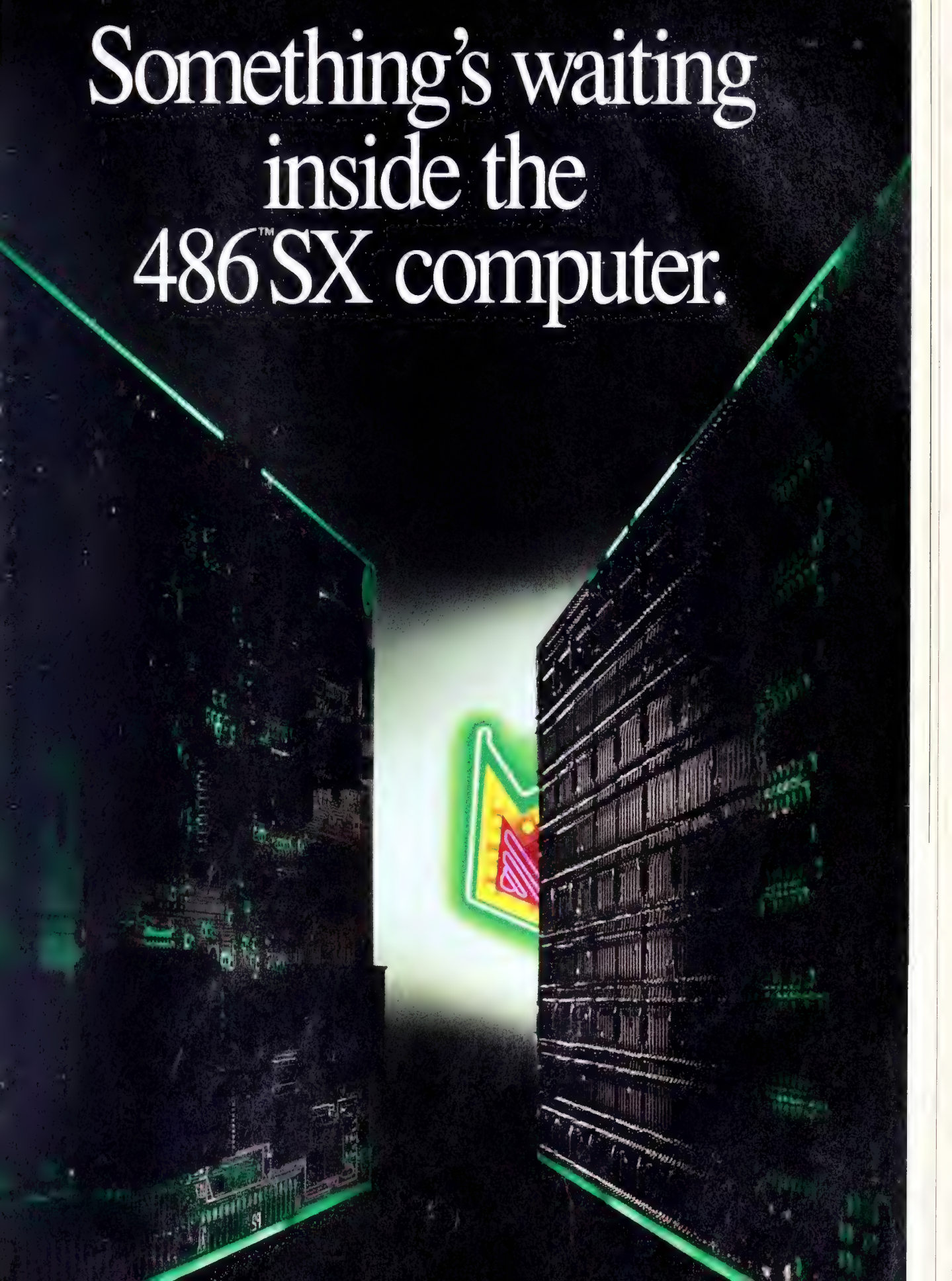
America's biggest chip-equipment firm, \$639 million Applied Materials Inc.

A YES-YES? Graham insists that Novellus can hold its own by playing a *keiretsu* card: strategic alliances. Last spring, Novellus and Lam Research Corp., whose equipment etches semiconductor wires from the thin metal films laid down by a CVD system, teamed up to offer special package deals to chipmakers. The two even service each other's systems if something goes wrong after installation.

This partnership amazed industry gurus. Among the hundreds of chip-equipment players—mostly small and undercapitalized—interdependence is so venerated that collaboration has been a no-no. Now, Graham hopes to strike more such deals. "For this industry to survive," he declares, "we've got to leverage each other's assets." Even small companies can thrive, he adds, with help from a few friends.

By Robert D. Hof in San Jose, Calif.

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HCA: THE GOLDEN ROAD FROM LBO TO IPO

Stakes of the hospital company's insiders soar 720% in three years

Tommy Frist has never been crazy about answering to public shareholders. The chairman of Nashville-based HCA-Hospital Corp. of America spent much of the late 1980s worrying that his company's low stock price would make it a takeover candidate. Former executives of Republic Health Corp. made a play for HCA in 1987, but Frist escaped by selling off 104 smaller hospitals and buying back stock. Wall Street yawned, though. So when he again sensed the footsteps of raiders a year later, Frist smoothly engineered a \$5.1 billion leveraged buyout that took the health care conglomerate private in 1989.

Then why is the same Thomas F. Frist Jr. now back, less than three years later, knocking on the door of the public markets? The current bull market in health care stocks is evidently too inviting to ignore. HCA disclosed in a January filing with the Securities & Exchange Commission that it plans to sell about one-quarter of the company to investors. HCA, which shed some \$3 billion in assets after the LBO, hopes to raise up to \$860 million.

KEEPING MUM. Frist, who slimmed the company into a lean competitor with 74 acute-care and 54 psychiatric hospitals while it was private, stands to have his cake and get it spoon-fed to him, too. Assuming that investor demand for the shares is strong—and there's evidence it will be because of a healthy earnings outlook for 1992—he's going to make a bundle. And the offering is structured so that Frist, 53, will have little to worry about from unwanted suitors.

Frist and other insiders aren't talking because the offering document is still being reviewed by the SEC. But the prospectus reveals enough to make it clear

that the 1989 LBO has turned into a grand slam for Frist and his buyout group, which included Goldman Sachs, J.P. Morgan, and Texas investor Richard E. Rainwater. At an estimated mid-range offering price of \$20.50 a share, the insiders' stakes will have increased in value by 720% in less than three

years. Their initial \$283.7 million investment gave them 100% of the company's equity. After the IPO, their stake will be worth \$2.3 billion, and they'll retain about 75% control. Also, stock options awarded to key HCA employees could be converted into shares worth \$690 million.

Whenever an LBO is undone this quickly and at such a stunning premium, it usually means one of two things: Either the management insiders were extremely shrewd, or the original shareholders goofed in selling out too cheaply. In this case, it looks like a little of both. Most hospital-company stocks languished in the 1980s as fears mounted about Medicare reimbursement rates and the trend to managed care, in which individual employers or groups bargain for volume discounts.



The fears were well-founded. Aggregate hospital profits have been cut by half since 1985, says health care consultant Douglas B. Sherlock. As HCA prepared to go private, there were only half-hearted protests from otherwise savvy institutional investors, and the LBO price was eventually bumped up from \$47 to \$51 a share.

CLOSINGS. Once the LBO was complete, management intensified a cost-cutting drive that produced \$70 million in annual savings. Frist, a former Air Force flight surgeon who joined HCA when his father co-founded it in 1968,

slashed layers of management, closed all but one regional office, and cut the Nashville headquarters staff by 50%. To boost earnings, he offered liberal stock options and cash bonuses to administrators who met individual profit goals.

Although debt service was consuming 15¢ of every revenue dollar in the LBO's early days, capital spending didn't totally dry up. The prospectus says HCA spent \$500 million over 2½ years on capital projects, with the focus on expanding outpatient treatment facilities. These services, generally more profitable than inpatient treatment, are on track for \$1.4 billion in 1991 revenue—a 66% increase from 1986. In the first three quarters of 1991, HCA earnings climbed 44%, to \$96.8 million, on revenue of \$3.7 billion.

From now on, debt costs should take a much smaller bite out of HCA. It's using cash from asset sales to retire \$480 mil-

THE HCA STORY

1968 Onetime Kentucky Fried Chicken owner Jack C. Massey and cardiologist Thomas F. Frist Sr. found company with a single hospital. It eventually owns or manages nearly 500 hospitals

1982 Thomas F. Frist Jr. named chief executive officer

1987 Frist rebuffs takeover bid, sells more than 100 hospitals

1989 HCA taken private in \$5.1 billion leveraged buyout. Frist accelerates cost-cutting drive

1992 Plans to sell as many as 39.1 million shares—25% of total. Would raise up to \$860 million

DATA: COMPANY REPORTS

n in junk bonds with a punishing 15.75% coupon rate. If HCA's stock sale goes as planned, the proceeds will be used to buy back \$435 million in 15.75% junk bonds and pay down a portion of the bank debt.

Besides lower interest costs, HCA has some healthy operational advantages going for it. Analysts believe it is one of the few hospital companies making money on its medicare business, thanks to strict cost controls. Since discounted managed care accounts for less than 10% of HCA's revenues, the company exceeds industry averages with a 21% profit margin at its acute-care hospitals, most of them in the Sunbelt. And even though the psychiatric division no longer boasts high margins, the prospectus shows that margins have stabilized near 20%.

All in all, HCA should earn about \$1.60 a share in 1992, some analysts figure. Based on an offering price of \$20.50,

that would give it a price-earnings multiple of less than 13—vs. 21 for the Standard & Poor's 500 index. Still, investors will want to tread lightly. Besides HCA's considerable debt load, the prospectus also discloses a potential \$1.1 billion tax liability for which the company has no reserves. And there's a chance the government will take another whack at medicare reimbursement rates, which account for one-third of HCA's revenues.

COPING. When the dust from the offering settles, Frist will win two ways. He and his family will hold 13.9 million shares or stock options with an indicated value of nearly \$300 million. But of perhaps equal importance to Frist, the new public company will still be subject to a bank covenant that triggers a default on \$1.9 billion of HCA's bank debt if a raider acquires 50% of its stock.

Frist and the other insiders won't be cashing out until 180 days after the IPO,

at the earliest. Some analysts suspect that since HCA will still have \$2.7 billion in total debt, or 72% of capital, concerned banks may have forbidden insiders from taking out any equity until the leverage is reduced. Lenders contacted by BUSINESS WEEK declined to comment.

The challenge for the future is how well Frist and his team cope when Sunbelt employers wake up and stop paying retail for their workers' hospital costs. "Managed care inherently means employers will demand to pay wholesale," says analyst Kenneth S. Abramowitz at Sanford C. Bernstein & Co. "Eventually managed care will take over everywhere." That means Frist will have to work hard to avoid another reckoning with shareholders some day. But when you stand to make as much money as he does, a distant stockholder showdown is probably the last thing on your mind.

By Chuck Hawkes in Atlanta

HCA'S OFFSPRING ARE MAKING NASHVILLE A PROUD PARENT

Nashville will always be best known as a town of twanging guitars and country crooners. But lately, the home of the Grand Ole Opry also has been playing host to the Grand Ole IPO: Nashville has become a hotbed of initial public offerings by health care companies. HCA-Hospital Corp. of America will be the ninth Nashville-area health care company to go public in the past year. Collectively, they will have raised about \$1.5 billion in equity (table). To paraphrase Willie Nelson: "If you've got the money, honey, they've got the stock."

This swelling health care band got its start as a duet back in 1968. That's when businessman Jack C. Massey and cardiologist Thomas F. Frist Sr. came up with the notion that hospitals could be run as profitably as a chain of Holiday Inns. Massey—fresh from selling his Kentucky Fried Chicken chain—provided the capital, and Frist furnished the contacts. Their Hospital Corp. of America quickly pawned a Nashville competitor, Hospital Affiliates Inc., which HCA bought in 1981.

Over the years, many HCA executives left to strike out on their own. Others got their start when HCA sold off a collection of ancillary businesses. All told, more than 20 companies have been founded by veterans of HCA and Hospital Affiliates. These include Allied Clinical Labs, which went public in 1990, as well as Quorum Health Group

Inc., a hospital-management firm that reached the public market in 1989.

But HCA did more than supply the talent for a growing industry. It furnished the pattern for success, showing upstarts how to profit from health care and offering a game plan for attracting investors. Early in his career, remembers National Rehabilitation Centers Inc. Chairman William Youree, "I was like a little kid watching the big

election as mayor, a full-time position, he has stepped down as chairman.

Although unexpected losses at an insurance unit have battered Coventry's stock price, most of the Nashville IPOs have ridden the strong market to big gains. HealthTrust Inc.'s stock is up 50% in its first month of trading. The company was created in 1987, when 104 of HCA's smaller hospitals were spun off. Another favorite is American Healthcorp, whose stock has doubled in price since its August IPO. It runs diabetes treatment centers.

CASHING IN. Such niche plays are the rule for the Nashville IPOs. National Rehabilitation Centers' forte is workers-compensation cases. Inforum Inc. sells hospital-management software, while Diversicare Corp. of America is a nursing home chain. Medical Waste Systems operates incinerators. Community Health Systems runs 10 rural and suburban hospitals.

Nashville also is home to one of the hottest health care stocks going, Surgical Care Affiliates Inc., an outpatient surgical-center operator that is selling at a stratospheric 87 times earnings. Such multiples could mean the market is nearing its peak. PhyCor Inc., an operator of freestanding clinics, and Pinnacle Care Corp., which has nursing homes and rehab centers, both recently announced plans to go public. With any luck, they'll cash in before the music stops.

By Lyda Phillips in Nashville

NASHVILLE'S NEW TUNE

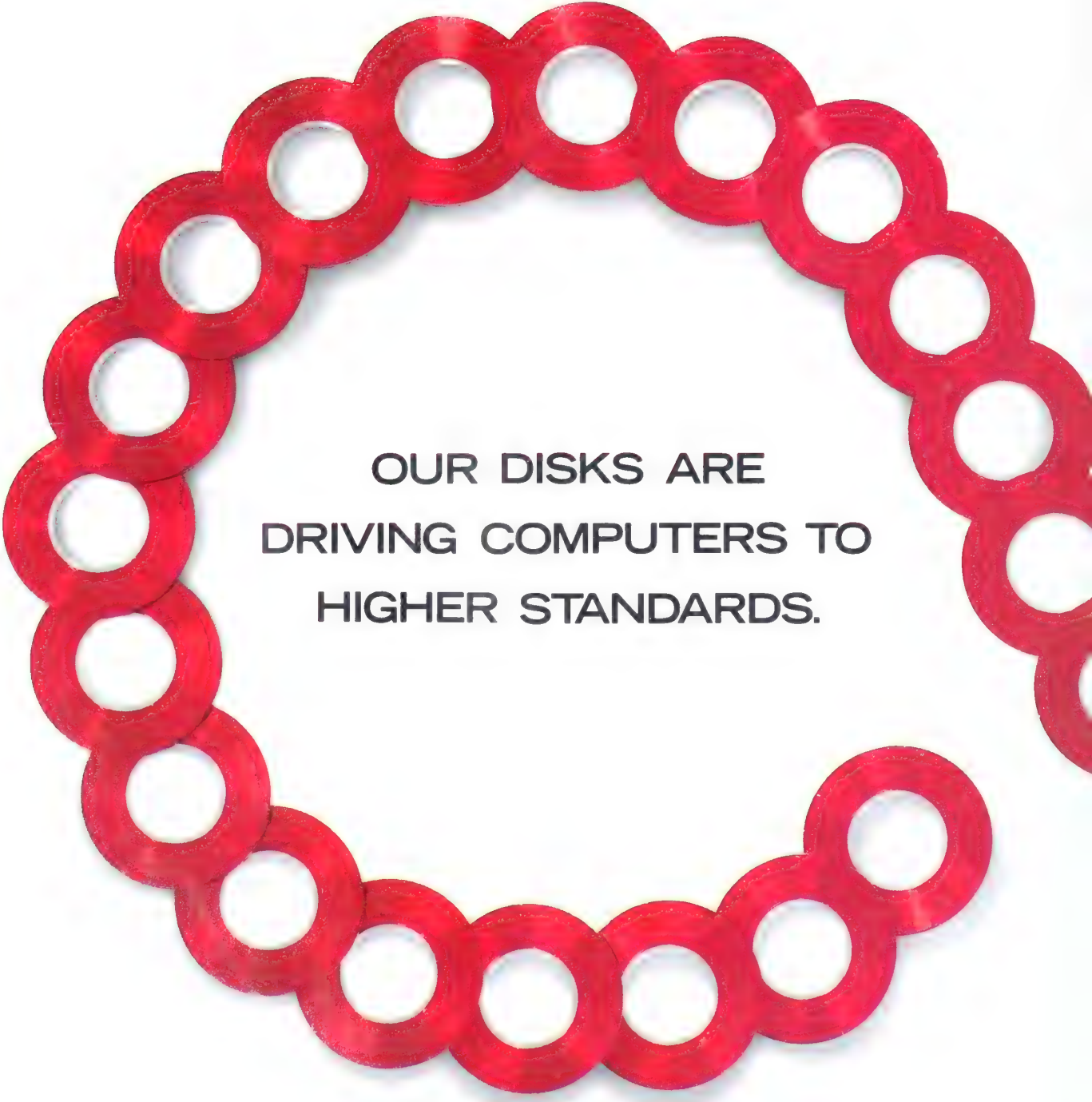
Initial public offerings in last year

Company	Amount raised Millions	Initial price per share	Price on Jan. 13
HEALTHTRUST	\$560.0	14	21 ¹ / ₄
COVENTRY CORP.	43.5	14 ¹ / ₂	14
COMMUNITY HEALTH SYSTEMS	33.6	16	24 ¹ / ₄
INFORUM	22.0	11	16 ¹ / ₂
AMERICAN HEALTHCORP	20.0	10	20 ¹ / ₄
NATIONAL REHABILITATION CENTERS	15.6	13	16 ³ / ₄
DIVERSICARE	13.8	12 ¹ / ₄	11 ⁵ / ₈
NATIONAL MEDICAL WASTE	5.4	7 ¹ / ₂	41 ¹ / ₄

SOURCE: COMPANY REPORTS, BRIDGE INFORMATION SYSTEM INC.

kids play." Now 44, he took the company public last year.

Even Nashville's mayor, Phil Bredeisen, is a health care entrepreneur. Bredeisen started a health-maintenance organization in 1980, and netted \$400 million for a small group of investors when he sold out. A year later, in 1986, he started building another HMO provider, Coventry Corp. Bredeisen took Coventry public last year. Since his



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products in businesses all over
America.

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COMPUTERS, COMMUNICATIONS, MICROELECTRONICS

FOR DRUGMAKERS, THE SKY'S NO LONGER THE LIMIT

Public and private consumers are starting to balk at spiraling costs

Drugmakers are starting to balk at spiraling costs. In the U.S. So, when Rhodes called Bristol-Myers Squibb Co. Chief Executive Richard L. Gelb last fall, he listened. Rhodes chastised Gelb for threatening to stay out of her program rather than absorb the 12.5% rebate off wholesale prices that a new Pennsylvania law requires. Gelb relented and signed up before the law took effect on Jan. 1. Soon, "a few other companies that were sitting on the fence" did the same, says Rhodes.

For the past decade, drugmakers have raised prices with impunity. Then, a year ago, a new federal law required them to give 12.5% discounts to state Medicaid programs for the poor. Now, the price cuts are snowballing. On Jan. 7, Bristol-Myers said it would give similar discounts to agencies such as the U.S. Public Health Service and to federally funded alcohol- and drug-treatment centers.

It's probably an effort to forestall tougher regulation.

bate so that prices

on the Arkansas Democrat

company has come forward and said: 'We can discount.'

'VERY NEGATIVE.' Sooner or later they will, and that will hurt profits. Drug prices rose

the inflation rate. They're already rising again this year and may boost drugmakers'

hefty 17%. The modest price restraint so far has left earnings untouched, so drug stocks are soaring. But that can't continue indefinitely. Over the longer term, price containment will be "very negative" for the industry, predicts independent drug analyst Hemant K. Shah. He adds that about 70% of the industry's revenue growth, which may hit 20% this year, comes from price increases.

Drugmakers say they need high returns to pay the average \$230 million cost of developing a new drug while also researching treatments for complex diseases such as AIDS and Alzheimer's. "You don't want to kill the goose that lays the golden egg," warns Dr. Charles A. Sanders, chief executive of the U.S. arm of Britain's Glaxo Holdings PLC.

The obvious solution for drug compa-

nies is to restrain prices some, but not too much. They disagree, though, over how far to go. Big money makers, such as Merck & Co. and Glaxo, are limiting average price hikes to the increase in inflation. Others, including Bristol-Myers, have balked at even that boundary. So, Pryor has introduced legislation that would curb industry tax breaks if prices rise faster than the rate of inflation. The bill's chances are uncertain.

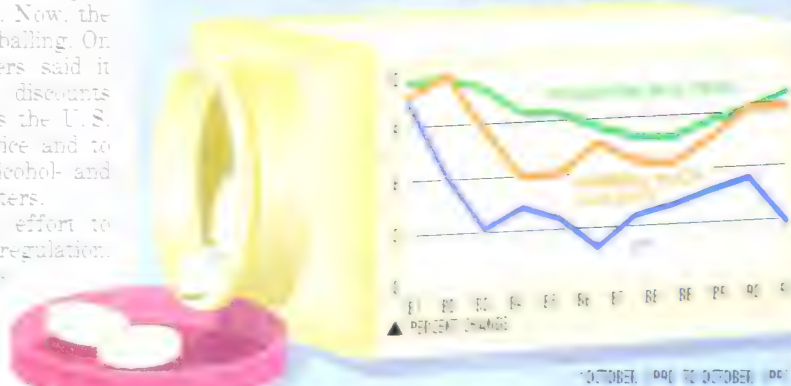
SQUEEZE PLAY. As it is, critics contend that the companies are compensating for deals they give government agencies by raising prices for everyone else. One example: Government buyers of a 100-pill bottle of the Bristol-Myers anti-anxiety drug BuSpar will now pay \$0.55, some 11.2% less than last year. But wholesalers will pay \$71.54, up 4%. Bristol argues that it's simply charging a fair price where it can. But nongovernment buyers are anxious. "It's like squeezing a balloon," gripes Myron D. Winkelman, a senior vice-president at ValueRx Pharmacy Program Inc., a division of Value Health Inc. that manages drug-benefit programs for corporations such as Ford Motor Co. "Squeeze [prices] at one end, and they pop out somewhere else."

This game will get harder to play however. Cut-rate generic drugs are providing a lot more competition to name brands. And new drugs do not always command a huge premium. For instance, Merck's Mevacor, a four-year-old cholesterol-fighter, costs patients about \$700 for a year's supply. Then, late last year, Bristol-Myers came out with cholesterol-fighter Pravachol and priced it 10% lower. Now, Merck is bringing out Zocor, a new cholesterol eater, priced to match Bristol's lower rate.

But for the long run, political pressures will be more onerous than competition. "Unless there are more voluntary changes, I believe you will see an intensification of government regulation," says Kurt M. Landgraf, executive vice-president of Du Pont Merck Pharmaceutical Co., a joint venture of Du Pont and Merck. Ultimately, that's going to be far more costly for the industry than the phone call that rattled Bristol.

Philadelphia

RAPIDLY RISING PRICES...



...ARE PUTTING DRUGMAKERS ON THE DEFENSIVE

DISCOUNTING In January, Bristol-Myers Squibb Co. started selling drugs to the federal government at the reduced prices it gives state Medicaid programs, an average 12.5% under wholesale

INDEXING Merck & Co., Glaxo Inc., and Du Pont Merck Pharmaceutical Co. have agreed to keep average of drug price increases at or below inflation

DEEP DISCOUNTS Many companies cut prices by up to 50% for the Veterans Administration

AID TO THE INDIGENT Glaxo and other companies make free drugs available to patients not covered by other programs

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Developments to Watch

EDITED BY FLEUR TEMPLETON

TOGETHERNESS IN THE REALM OF 'VIRTUAL REALITY'



Entering a computer-generated world known as virtual reality (VR) is a thrill. Using goggles and gloves, you can explore in 3-D color and manipulate objects. But there's been no way to share the experience.

Now, Japan's NEC Corp. has designed a prototype that brings up to five people together in a simulated environment—so engineers in

different places, for example, could work on a common design problem. Instead of bulky headgear required by most U.S. VR systems, NEC uses goggles that convert a computer-screen image to three dimensions. And when participants wear gloves connected to workstations in a high-speed network, their hand motions are mirrored by hand-like icons on the screen.

Crunching the data for these moving images strains today's workstations, so the objects are just crude animations. But within three years, NEC predicts, more powerful computers will enable teams in Europe, America, and Japan to share "virtual workbenches" to design cars and aircraft.

RADIO WAVES THAT COULD BRING EARTH-SHAKING NEWS

Runaway dogs. Alignment of heavenly bodies. Rhymes of 16th century sage Nostradamus. These are the only warnings for those living in earthquake zones. But now, Stanford University scientists think ultralow-frequency radio waves might forecast quakes.

The ULF phenomenon was discovered accidentally, when researchers tracking noise interference with satellite communications recorded a strong ULF wave surge in the days before California's devastating 1989 quake. The research instrument happened to be located a few miles from the quake's epicenter. At a recent American Geophysical Union meeting in San Francisco, scientists from Greece, China, France, and Japan reported similar prequake ULF wave spikes.

But it will be some time before an alarm is developed. Most earthquake research funds remain in traditional seismic projects monitoring landmass motion. And even scientists who are optimistic about ULF's potential are unsure about basic facts: One knows what sets off these signals, how to interpret them—or whether ULF monitors should be buried or placed in ellites.

CD PLAYER WITH ELECTRONIC SHOCK ABSORBERS

Trouble is, portable compact-disk players aren't very portable. You can carry them from place to place, but you can't really listen to them on the go. That's because every little bump becomes an audible skip, as the CD player's laser pickup dances off the track.

Sanyo Corp. has a solution. It is equipping its top-of-the-line

Fisher portable with an electronic antishock scheme. Instead of mechanical shock absorbers, the system spins the disk twice as fast and stores almost four seconds worth of music data in a 4-megabyte memory before converting it to sound. That way, when the laser beam mistracks, it has time to go back and reread the skipped part in the memory. But uninterrupted listening does not come cheap. When it's available in April, the Fisher PCD7 will sell for around \$400.

AIDS: WHITE CELLS ALONE CAN BOLSTER IMMUNE RESPONSE

A few months ago, British scientists reported a startling find in AIDS research. In an experiment on monkeys at the National Institute for Biological Standards & Control in Hertfordshire, they gave a test group a vaccine made from inactivated viruses grown inside white blood cells. As researchers hoped, the virus stimulated an immune response in three of the four animals. A control group got only white blood cells. But to everyone's surprise, two of the four unvaccinated animals were also able to ward off infection by the simian equivalent of the AIDS virus.

Because the results were so preliminary, other scientists were skeptical. Now comes new evidence: In the Jan. 17 issue of *Science*, researchers at Duke University reported that monkeys exposed to preparations containing white blood cells showed a strong immune system response.

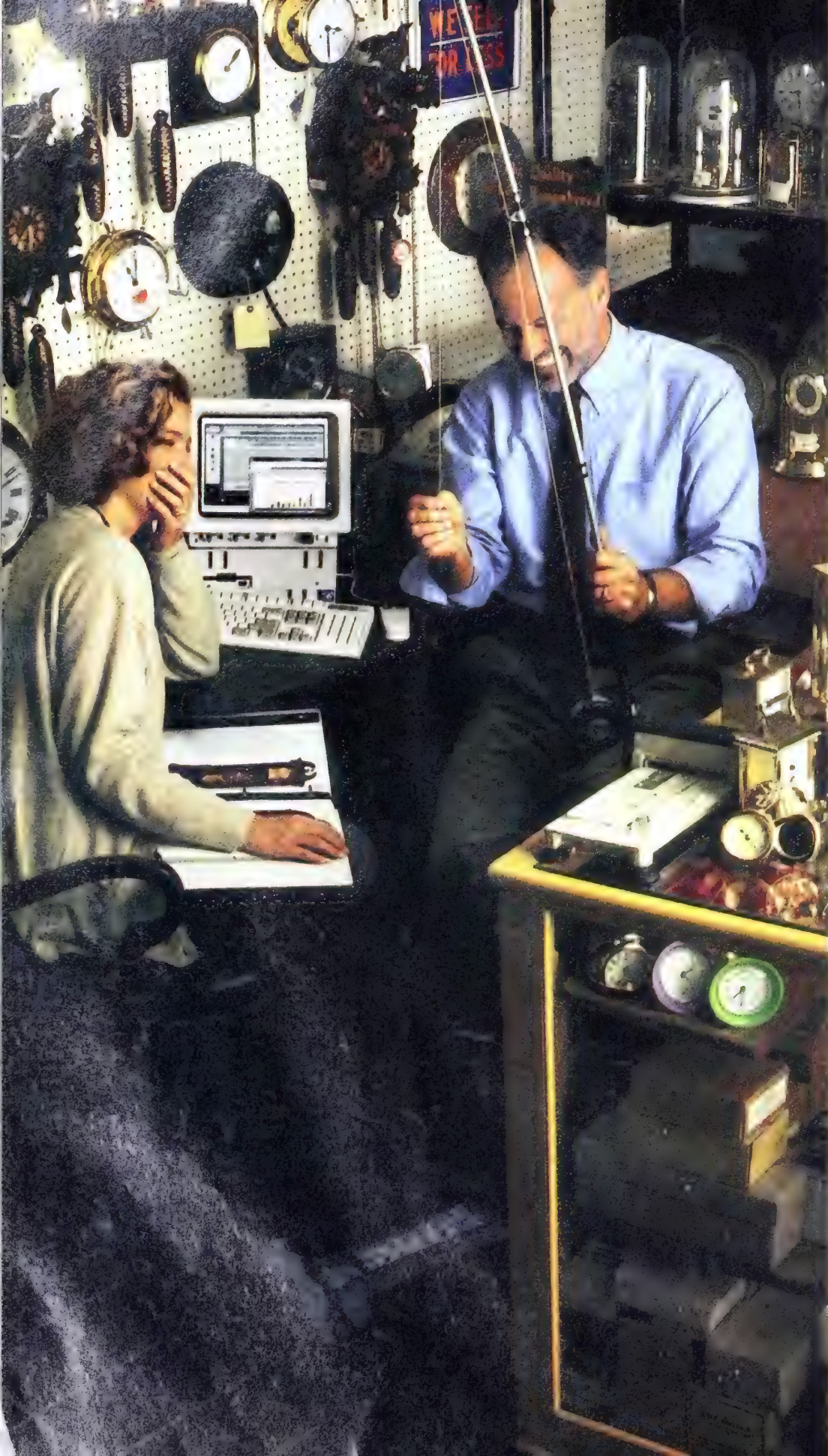
These experiments raise questions about how antibodies against white blood cells can fight the virus—and cast doubt on current human vaccine strategies, which only administer portions of the virus itself. And they lend credence to a controversial theory that the AIDS virus may do its deadliest work by causing immune cells to attack themselves. "But it's not all bad news," says Duke's Dani P. Bolognesi. He suggests more powerful vaccines could be created by combining parts of the virus with key proteins from white blood cells.

SMART MATERIALS MAY MAKE FOR A SMOOTHER RIDE

Birds and fish easily manage to control pitch and roll from wind and waves. Researchers hope to use "smart" piezoelectric materials to build ships and planes that would mimic the way these creatures move. The ceramic materials contract and expand in response to electric current.

To demonstrate how piezoelectric materials could aid marine propulsion, University of Kansas aerospace researcher Ron Barrett has built a 9-inch-long boat, controlled by a large tail that propels it up to speeds of 0.6 knots. Attached in a spiral pattern to a fiberglass strip, the smart materials, sensitive to electric current, bend and twist the tail like a fish. Barrett describes it as "a feeble imitation of what Mother Nature does with nerves and muscles." Researchers say the same piezoelectric system could be used in airplane wings and helicopter blades to reduce turbulence or in smart structural beams that would respond to wind gusts or earthquakes.





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POOF! WALL STREET'S SORCERERS LOSE THEIR MAGIC

For the stock-picking elite, the gambits of the '80s work no more

The surest way to start a brawl on Wall Street is to say that the average money manager can be replaced—by a computer. That brickbat draws blood for a good reason: It's true. Over the years, portfolio managers have been notorious for falling behind the market indexes. The only exceptions have been a handful of stock-picking virtuosos—"market wizards"—who rode the Eighties bull market to ever-greater riches. Superstar stock-pickers such as Warren Buffett, Mario Gabelli, Michael Price, and John Neff, and futures guru Paul Tudor Jones, have long frustrated

cash to the Street's most prominent brains, in the hope that genius would triumph, found their managers' muse has gone astray. Gabelli, a master at picking undervalued takeover candidates, saw his portfolios rise as little as 15%. Price, the troubled-company aficionado, had a vexing time himself, as his flagship Mutual Shares fund gained a mere 21%. And he began '92 on a sour note, as his huge stake in R. H. Macy & Co. bonds and preferred stock withered in value (page 28). Windsor fund, run by Neff, also underperformed the indexes. Small-stock maven Charles Royce, com-

Berkshire Hathaway shares by 35.5% in 1991, its portfolio increased by only 28%. "Look at [Berkshire Hathaway holdings] USAir, Champion International, and Salomon Brothers. I think you have to at least raise the question of whether [Buffett] is a consistent genius in this stock market," says Burton G. Malkiel, an economics professor at Princeton University whose 1973 treatise on the unpredictable nature of stock market behavior, *A Random Walk Down Wall*



HOW THE WIZARDS WEREWALLOPED IN 1991

While the Standard & Poor's 500-stock index gained **30.5%**...
...and the average diversified mutual fund gained **35.2%**...
...and NASDAQ over-the-counter stocks gained **56.8%**...
...here's how four famed money managers performed:

MARIO GABELLI

Gabelli Value, the largest of the mutual funds operated by this famed value-hunting investor, scored



15.3%

MICHAEL PRICE

Mutual Shares, the largest fund run by Price, seeks out undervalued stocks, bankruptcy plays, and merger candidates. It gained

21.0%

proponents of the "efficient markets" theory—which holds that trying to beat the market is an exercise in futility, since all public information is already reflected in stock prices.

Well, it's the plain-vanilla money managers who are riding high nowadays—and the geniuses, it seems, who can be profitably replaced by microprocessors. In the year just ended, the faceless hordes of mutual-fund managers beat the 30.5% total return of the Standard & Poor's 500-stock index by nearly five percentage points. Scores of aggressive-growth fund managers racked up gains averaging 46%. Meanwhile, the thousands of investors who entrusted their

modities star Jones—the list of familiar-sounding laggards is long.

Even Warren Buffett, the legendary investor and chairman of Berkshire Hathaway Inc., seems to have lost his magic touch. Although investors bid up

Street, is the bible of efficient-markets theorists.

Has the "random walk" finally caught up with—and trampled—Wall Street's superstars? Perhaps. But there are equally compelling reasons for the hard times that have befallen these investment luminaries.

One explanation can be summed up simply: style. Styles come and go on Wall Street, and right now the main style of stock market wizards is out of favor. Most are value investors, seeking companies whose intrinsic value is far more than is stated on their balance sheets. Value investing has languished since the takeover boom faltered in the

the 1980s. The past year was particularly dismal, as market leadership was seized by small-capitalization growth stocks. Earnings momentum—not valuation—has been paramount. “It’s been a lonely existence,” laments Royce, manager of Pennsylvania Mutual fund, a prominent value-oriented small-cap fund whose 1991 gain was 31.8%—25 points below the 56.5% gain in NASDAQ-traded over-the-counter stocks.

Another reason for the stars’ troubles is size. Name investors such as Royce and, to some extent, victims of their own success. As funds grow in size, it takes ever-larger investments to affect portfolio performance. “When I look for a value manager, I look for ones that are under \$1 billion,” says Harry Strunk, a Florida money-management consultant.

ROUGH TIME. Size can be even more troublesome for traders in futures and options. Take star futures trader Paul Tudor Jones. His holdings climbed 176% in 1987, when he ran \$158 million in client cash. By 1991 his holdings were \$870 million. And in that year, when all commodities funds had a rough time, his investors saw gains of just 20.9% through Nov. 30, the most recent period

Buffett's smaller deals of the '70s would return their investment 30 times over. By contrast, his \$290 million stake in Wells Fargo hasn't budged in 14 months



when people get \$10 billion.” (In fact, Fidelity’s \$17 billion Magellan fund, run by little-known money manager Morris Smith, gained 41% in 1991 by concentrating on fast-growing companies.)

Probably no investment wizard has been more sorely tried in recent months than Buffett. The Omaha-based investor devotes much of his energies nowadays to personally managing Berkshire’s most vexing investment, troubled bond-trading giant Salomon Brothers Inc. Like most of his other large investments in recent years, Buffett’s Salo-

home runs. He put only about \$10 million into Washington Post Co. in 1973 and \$45 million in GEICO in 1977, and saw returns of 34 times his original investment for the Post and 29 times for GEICO, excluding dividends. By contrast, his smallest equity investment since 1986 was his risky, \$290 million foray into Wells Fargo & Co. in 1990, which is now worth no more than what he paid for it 14 months ago. “He doesn’t want to invest \$50 million or \$100 million because it’s not going to make any difference to his portfolio,” says Michael Lamb, president of *Wealth Monitors*, an investment advisory firm.

ON THE REBOUND? Buffett’s concentration on a handful of companies makes his prospects chancier than those of fellow value-hunters Neff, Price, and Gabelli, who are widely diversified. Over the years, growth and value styles have each tended to dominate the roster of top funds half the time, notes Bob Mose-

JOHN NEFF

Even though Neff’s Windsor mutual fund was heavily invested in well-performing financial services stocks, the fund was still a laggard

28.6%



PAUL TUDOR JONES

This star commodities trader first gained prominence with a gala performance in the 1987 crash. Through Nov. 30, his holdings rose

20.9%



for which figures are available. A Jones associate says the firm seeks 15% returns and concedes that the asset explosion “makes it difficult to achieve the rates of return we might want.”

In size as well as prestige, the granddaddy of the wizards’ investment vehicles is Buffett’s Berkshire Hathaway. With \$12.7 billion in assets at last count, the company has grown unwieldy. “Size is a certain point gets to be an anchor, which drags you down. We always knew that it would,” says Charles T. Munger, Buffett confidant who is president of Berkshire Hathaway. “You get \$10 billion in marketable securities, and show the unbelievable compound rates

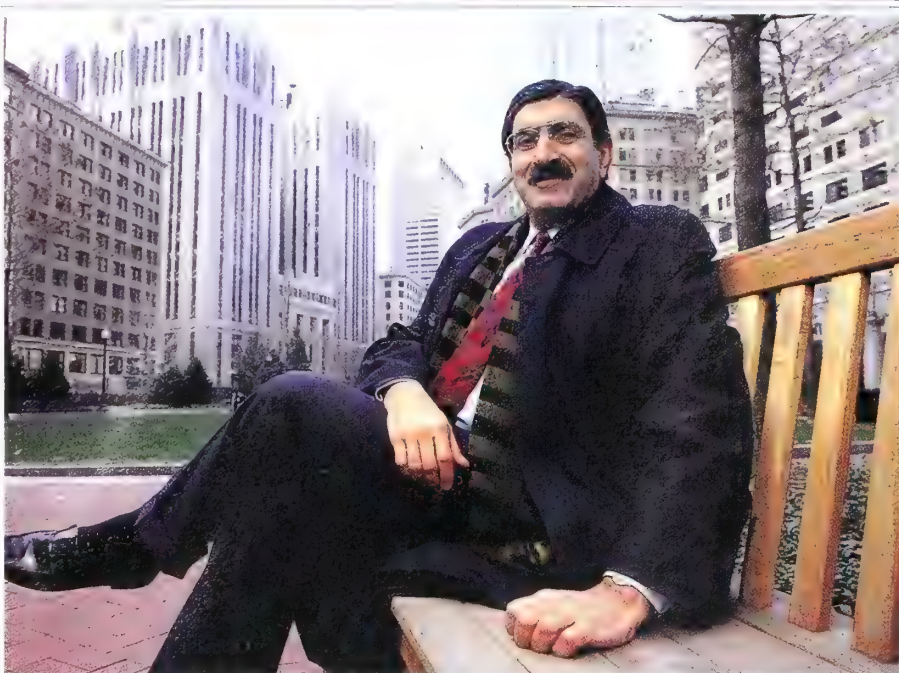
common stake was not common stock but convertible preferred, which can be changed into common at a specified price and pays a rate of interest meanwhile. One way of valuing the preferred is this: If Buffett were to convert all of his preferred shares today, he would lose 31% of their \$1.56 billion cost. That’s a theoretical loss of \$458 million on the Salomon, USAir, Champion, and American Express issues. The only preferred investment that proved worth converting into common was his \$600 million stake in Gillette.

Buffett was not a megabucks investor when he hit most of his investment

son, president of Performance Analytics, a Chicago pension fund consultant. Based on historical trends, Moseson reckons that the turning point has been reached—and he plans to put his clients’ money into value funds.

Neff, for one, doesn’t much care for the term “value.” “The media and market seem to draw the line between growth and value stocks,” he says. “It’s a little hard to generalize.” At a time when indexes and no-name investors have taken over center stage, perhaps the same thing can be said for another label—“market wizard.”

By Gary Weiss in New York and David Greising in Chicago



PRESIDENT NADA: BY THE END OF '92, FCM WILL BE ONE OF THE STREET'S TOP 10 BROKERS

THIS LITTLE BROKER WENT TO MARKET—AND GOT BIG

Fidelity's low-cost trader is stealing thunder from Street stalwarts

Of Wall Street's thousands of big customers, there's no bigger sugar daddy than Fidelity Investments, the huge mutual-fund complex with \$156 billion under management. In 1991, the company paid the Street about \$150 million in stock brokerage commissions alone.

The Street's once warm feelings about Fidelity, though, are becoming more ambivalent, for the fund manager is behaving less like a customer and more like a competitor. For over a decade, Fidelity has operated a highly successful discount brokerage unit catering to retail customers that is now second only to Charles Schwab & Co. It also operates National Financial Services Corp., a major Wall Street back-office concern, which clears trades for 180 brokerage houses.

Now, Fidelity is aggressively targeting one of the Street's core businesses: being a broker for large institutional investors. In the past two years, Fidelity Capital Markets Co., operating from a small office two blocks from Fidelity's base in Boston, has expanded its share of trading on the New York Stock Ex-

change, the American Stock Exchange, and the regional exchanges from under 1% to 2.5%. Its customers include Bankers Trust and Cigna Insurance.

Although it is small compared with Merrill Lynch & Co.'s 10.6% market share, FCM President Sherif A. Nada says it will be one of the Street's 10-largest brokers by the end of 1992. FCM does in-house trading for Fidelity's retail brokerage, earns commissions from Fidelity mutual funds, and does business for other institutions. "If we are going to be a very good and very large financial services company," Nada says, "we've got to be big in brokerage."

Fidelity is working to wrest maximum synergy from its securities activities. National Financial, for instance, clears all of FCM's trades and helps recruit customers. "We see the collective leverage of all our brokerage companies working together as one of our major growth opportunities in

the '90s," says Gordon R. Watson, a former Merrill Lynch managing director whom Fidelity named as president of a new unit which oversees the retail, institutional, and back-office operations.

Taking on Wall Street is only part of Fidelity's diversification plans. "Ned" Johnson III, the company's venturesome owner and chief executive, recently bought a chain of art galleries. He also owns a limousine service and a head-hunting firm. On Feb. 3, Fidelity will launch *Worth* magazine, aimed at individual investors.

TINY DESK. To run the institutional brokerage operation, FCM hired several Wall Street pros. Nada, a former Salomon Brothers Inc. managing director, signed on in 1989, and quickly acquired Newhard, Cook & Co., a California institutional brokerage firm that specialized in "soft dollars"—a system where customers receive trading-commission credits from their brokers that they can use to buy a range of investment-related services such as research reports and Quotron machines. Nada then hired top Merrill Lynch soft-dollar specialist Richard E. Cusic.

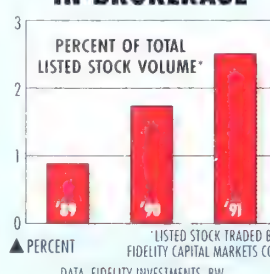
One of FCM's key strategies is to capitalize on one of Wall Street's biggest vulnerabilities: proprietary trading. Most major brokers trade for their own accounts at the same time they handle customer orders. Many big customers worry that firms put their own interests ahead of their customers' by, for example, unloading their own position in a deteriorating situation before selling out customers' positions. While it handles trades for Fidelity's funds, FCM itself does not trade for its own account, which Nada says is a big competitive advantage. "There's a lot of resentment and distrust about proprietary trading, and we're giving investors an alternative," he says.

FCM is open to criticism that it has its own interest conflicts. Scott Black, manager of the Delphi Group, which invests \$700 million for large institutions, won't trade through FCM because he considers Fidelity a direct money-management rival. "Why should I disclose my order flow to a competitor?" he says.

Yet many other customers find FCM's trading practices "a big plus," says James J. Mangan, the head trader at Citibank's Private Bank. Mangan, whose unit manages \$27 billion in assets, says he gives FCM many large orders that might have otherwise gone to the Street.

Another key FCM

FIDELITY: A BOOMLET IN BROKERAGE



strategy is similar to that of its retail brokerage unit: low costs. All of FCM's equity business is handled by a 15-person trading desk, which pales compared with the football-field-size trading floors of some New York firms. While most New York brokers offer institutional customers the services of high-paid stock analysts and economists, FCM has no analysts, economists, or commission brokers. "Not having to pay for a research staff automatically gives [Fidelity] much higher margins," says John Greefe, an analyst for Lipper Analytical Securities Corp.

Although Fidelity is taking on Wall Street, it is being careful not to burn its bridges. Street firms are a valuable source of research for Fidelity fund managers. And they need the Street to execute their most difficult trades, says Robert H. Morrison, head trader for Fidelity's funds, because unlike FCM, many investment firms are willing to put up their own capital to facilitate such trades.

WESTERN FRONTIER. Rivals insist that despite its rapid growth, FCM will never be very profitable. Institutional brokerage is a low-margin business that is a loss leader for many firms. Even the soft-dollar niche market that Fidelity has targeted, which makes up 22% of the entire institutional commission business, is overcrowded. "There are too many companies competing in the business, and the margins just aren't there," says Leslie C. Quick Jr., chairman of Quick & Keilly Inc., a large retail brokerage discounter.

Although they don't disclose profits, Fidelity executives insist their low-cost strategy lets them make money on business that is unprofitable to others. The firm, indeed, is expanding its securities activities. To beef up its retail brokerage unit, Fidelity plans to open 10 new investor centers this year, from Kansas City to Honolulu. It also recently started a bond-trading operation that focuses on an overlooked niche: corporate investors who regularly trade \$1 million to \$3 million worth of bonds. While Fidelity has no plans to underwrite corporate securities, it has applied to the Securities & Exchange Commission for permission to underwrite municipal bonds and has opened a California branch to handle bond issues by West Coast cities and towns.

While Wall Streeters view all of this warily, it's unlikely they will retaliate any time soon. Says one competitor: "Fidelity is such a big account to every firm on the Street, no one wants to piss them off." For Wall Street's biggest sugar daddy, it's almost like stealing candy from a baby.

By Geoffrey Smith in Boston, with Leah Mathans Spiro in New York

LLOYD RUBIN: WANTED, ESPECIALLY ALIVE

The flimflam man may have filched millions, then died—or did he?

Lloyd S. Rubin's life reads like a Graham Greene short story. The scene is the steamy, corrupt Panama of General Manuel Noriega. One day in the mid-1980s, Rubin, a portly American in his 50s, steps off a plane. In no time, he is ensconced in opulent offices, complete with an imitation jungle brook. He proceeds to filch millions from visiting countrymen, despite repeated complaints to the U.S. embassy. He tools around in a wine-colored Jaguar. Even after Noriega falls, Rubin continues to con with impunity. He seems untouchable... but is he?

In June, 1991, Rubin travels to Thailand with his new Panamanian wife, Rachell Constante. They drive to a dusty village, where Lloyd is admitted to a drug rehabilitation center run by Buddhist monks. Constante returns to Panama alone. Some weeks later, a New York judge hearing a fraud case against Rubin gets a Thai death certificate in the mail. It states that Rubin

died on July 26 at the rehab center and was cremated. As translated, the cause of death is listed as "complication disease, unhealthy." He was 60.

Lloyd Rubin apparently was no more than a bit player in Manuel Noriega's vast and various schemes. But within his own little niche of the financial underworld, Rubin was a legend. What Ivan Boesky was to insider trading, Rubin allegedly was—and probably still is—to the advance-fee loan scheme, in which cash fees are extracted from the gullible in exchange for loans promised but never made.

In most Greene-like fashion, Rubin's mysterious demise is not the end of his story but the beginning. Six months after the Bronx-born expatriate vanished, the U.S. State Dept. is still refusing to certify his death. The Thai police are investigating, as is the FBI's Hong Kong office. "Either he is not dead, or he did not die in the circumstances de-

Rubin's death certificate from Thailand states that he died on July 26 at a drug rehab center and was cremated there. But the circumstances seem fishy, and the U. S. State Dept. still won't certify his death



6 Preliminary 5.1 Method of undertaking: Cremation

Tests reported on 26th July 1991.

giving the report: Somphoch Jamphephet (SOMPHOCH JAMPHEPHET) Local Registrar of Phra Phutthabhad District Municipality

007128

-1 AUG 1991

Seen at the Ministry of Foreign Affairs

MINISTRY OF FOREIGN AFFAIRS

DEATH CERTIFICATE

1996

MR. LLOYD STANLEY RUBIN

1.1 Nationality: American 1.6 Occupation: Business 1.7 Marriage status: Married

2.1 Deceased on: 26th July 1991 Time: 08.00 hrs.

2.2 The attendant before death: Yes Physician

1.8 Address: Apartado 55-7194, Estafeta Postal, Panama, Republic of Panama

2.3 Death Certificate: ☐ Have ☒ No

2.4 Cause of death: Complication disease unhealthy

3.2 The period staying at the death place: 1 month 6 days

3.1 Name of Place: Thamkrabong Rehabilitation Center, No. 1, Villages No. 11, Khunthlon Sub-District, Phra Phutthabhad District, Saraburi Province

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scribed," says an American diplomat.

Those circumstances are fishy indeed. W. O. Krittayaporn Thamarom, the Thai police officer who signed Rubin's death certificate, recently told a *BUSINESS WEEK* reporter that he never saw the body. And the monk in charge of the crematorium at the Thramkrabog Rehabilitation Center insists that no foreigner has been cremated there since 1990. Rubin had been staying with Kuang Haeng, a monk who supposedly cremated him. Haeng declined to answer questions about Rubin.

People do die at Thramkrabog, a well-regarded facility that specializes in cold-turkey treatment of narcotic addicts and draws some 2,000 patients annually, including a fair number of Westerners. Typically, treatment begins with a religious ceremony, followed by repeated doses of a medicine that induces violent vomiting. In his application, Rubin said he had come to kick a 38-year tobacco-smoking habit. Asked the reasons for his addiction, Rubin wrote "business pressures and problems."

While it appears quite likely that Rubin faked his death, exactly what prompted him to disappear is unclear. For an advance-fee scammer, this is a great time to be alive. The combination of recession and credit crunch has loosed an advance-fee epidemic in America. In 1991, many Better Business Bureaus around the country report getting more complaints about phony loan come-ons than anything else.

On the other hand, Rubin did not lack for enemies. The FBI has been on his trail for years. And whether Rubin is dead or alive, scores of his embittered former "clients" are eager to get their hands on his estimated \$20 million in assets. Two dozen companies have lodged complaints against Rubin with the U.S. embassy in Panama.

BRAVADO. Besicorp Group, a U.S. solar-energy company, is pressing ahead with a \$135 million securities-fraud suit in U.S. District Court in New York. In 1985, Besicorp paid Rubin a fee of \$65,000 for a \$9.3 million private placement that never got off the ground. Rubin, who was acting as his own lawyer in the four-year-old case, blamed Besicorp for the collapse of the financing.

Most advance-fee promoters are small-time operators, operating sight unseen from "boiler rooms." By contrast, Rubin grandly styled himself an investment banker, complete with luxurious offices staffed with a dozen employees. In naming his firm Morgan Gundy International, Rubin might seem to have appropriated two of the most august names in

North American banking, Morgan Stanley & Co. and Wood Gundy Corp. But in a rare newspaper interview, Rubin insisted he was inspired instead by "Morgan, the pirate who burned Panama in 1571, and the sea gundy, an aquatic animal" that lives off the coast of Panama.

Working through a shadowy network of finders, Rubin lured capital-strapped entrepreneurs, mainly Americans, to Panama and dangled before them multi-million-dollar securities financing. Charging an initial \$49,500 to cover expenses, he rang up additional fees as financings dragged on. Former Rubin employees estimate he drained about \$10



STRONG MEDICINE: 2,000 ADDICTS A YEAR COME TO A CLINIC WHERE HAENG (LEFT) SAYS HE CREMATED RUBIN

million from some 200 victims all told.

Rubin made creative use of Panama's corporate secrecy laws. But his success was also a product of showmanship, financial sophistication, and, above all, political connections. Mario Rognoni, who was General Noriega's Commerce Minister, had ties to Rubin, as did Julio Harris, currently chief of state to President Guillermo Endara.

Although Rubin apparently never completed a single financing, he was thoroughly versed in the mechanics of underwriting. He overwhelmed prospective borrowers with application forms, worksheets, and fee agreements indistinguishable from the real thing. But later, clients would inevitably miss a deadline or run afoul of the Panamanian securities commission, and Rubin would exercise his contractual right to cancel the financing and keep the expense money.

Rubin developed his advance-fee techniques in Colorado, managing to stay one step ahead of the law. In the late 1970s, he negotiated a "deferred prosecution" with state authorities, by which

he avoided indictment by promising in effect never to do again what he did not admit to doing in the first place. About the same time, he testified under a grant of immunity in a related federal case. By the time a federal grand jury began investigating Rubin in 1984, he had moved to Panama. He never was indicted.

RENEGADE. In 1987, Rubin resurfaced in the Denver newspapers—as a crime-buster, of all things. A man seeking a loan had called on him in Panama City, carrying \$2.6 million in bearer bonds stolen from a Denver bank. Rubin took possession of the bonds and got in touch with U.S. authorities. After the man was arrested, Rubin personally delivered the bonds to the FBI.

The FBI had begun investigating Rubin himself by 1988, if not earlier—but without much gusto. Some of Rubin's former clients and ex-employees complain that bureau agents asked them only a few cursory questions or didn't interview them at all. Tomás Cabal, who briefly worked for Rubin before turning investigative reporter, was among those overwhelmed by the FBI's questioning: "Their attitude was, 'Well, if this guy does all the work for us, maybe we'll do something.'"

Cabal, who has written extensively about Rubin, theorizes that the disappearance was prompted by his unmasking last spring by articles in Panamanian newspapers and *The Wall Street Journal*. Then, too, Rubin's political position in Panama had eroded since Noriega's capture. In addition, Rubin may have been unnerved by the prospect of a trial in New York. Cabal suspects that Rubin has shifted his operations to Costa Rica, where he remains very well-connected politically.

If Rubin is alive, the weakest link in his scheme would seem to be his wife. A lawyer, Constance was handling Rubin's legal affairs even before their marriage. It's not clear whether she was a participant in her husband's latest intrigue or a victim of it. Constance did not return *BUSINESS WEEK*'s phone calls.

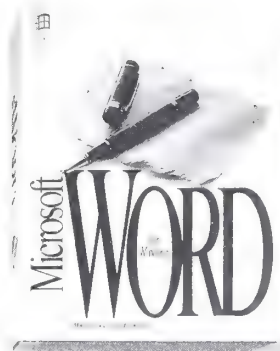
To date, Constance, 38, has failed to persuade the U.S. consulate in Panama to stamp Rubin's will. Without a consular stamp certifying his death, it will be difficult for Constance to gain title to her share of the estate. While Constance may find widowhood increasingly frustrating, no doubt it suits her husband's purposes to inhabit indefinitely the legal limbo between life and death.

By Anthony Bianco in New York, with Ken Stier at Thramkrabog Rehabilitation Center in Thailand and Stephen Baker in Mexico City

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Eamonn Sullivan, *PC Week*
“First Look Review,” October 21, 1991.



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BY GENE G. MARCIAL

SAFE, STAIID VOLVO MAY SOON BE BURNING RUBBER

A number of smart-money players who want to ride autos once the economy revs up are particularly hot on one giant. General Motors? No way. The pick is Volvo, the Swedish car and truck maker whose stock has climbed from 35 per ADR (American Depositary Receipt) in early 1991 to 60 recently. Shares of GM, Ford, and Chrysler are all still down from their 1991 highs.

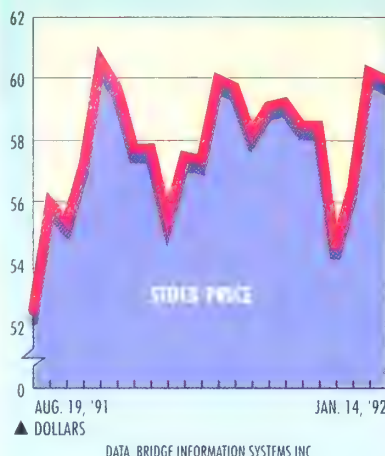
Like other carmakers, Volvo hasn't escaped the current worldwide slump in auto sales. It, too, has posted bleak results all year. For 1991, analysts are projecting a wide range—from a loss of \$1.63 a share to a measly profit of 10¢, vs. earnings of \$1.54 in 1990. But watch for an earnings swell this year. Bear Stearns analyst Douglas Laughlin thinks profits will boom to \$6.30 a share in 1992.

But that's not all Volvo fans are gung-ho about. "The most compelling facet of Volvo as an investment is the disparity between its asset value and the company's market value," argues Laughlin. He figures that Volvo's equity holdings in other companies, including Procardia, a food and pharmaceutical company, are worth \$59 a share. Although Volvo derives the bulk of its sales and earnings from autos, trucks, and buses—sold mostly in the U.S., Britain, and Sweden—it also makes marine and industrial engines as well as jet engines for military and commercial aircraft and space projects.

WORLDWIDE TIES. Another sign of strength is the alliance Volvo formed in early 1991 with French auto maker Renault, with each acquiring a sizable stake in the other's car and truck operations. The alliance is designed to share technology and strengthen both companies' competitiveness.

Even more intriguing in light of current concern about Japanese cars is Volvo's separate agreement with Mitsubishi designed to develop new Volvo and Mitsubishi cars that would use common key components and be manufactured at a Volvo plant in the Netherlands. The pact is expected to produce 100,000 units bearing the Volvo name and an equal number with the Mitsubishi label. One big investor thinks the alliance will give Volvo wid-

VOLVO: ON A JAGGED DRIVE



er entry into the Japanese market.

"Volvo's strategy is to be a niche producer of upscale family cars," says Merrill Lynch analyst Gary McManus, noting that it competes against the giants by cultivating an image of "safety, reliability, and overall quality." Rick Dowden, president and CEO of Volvo North America, says Volvo is striving to be the first truly global car producer by forging alliances with foreign carmakers. What's more, Dowden thinks Volvo will pursue the worldwide expansion of its food and health care operations to foster even more growth.

IS ENZO ON ANOTHER ROLLER COASTER?

Some investors in Enzo Biochem are fast developing acrophobia: They're worried that the stock's recent big leap from 3 to 7 in a matter of days may be followed by a sharp drop. That's exactly what happened in early December. After zooming from 1½ on Dec. 3 to nearly 8 three days later, it collapsed to 2½ by Dec. 11.

What's going on? The jump to nearly 8 was due to Enzo's brief announcement on Dec. 4 that it had introduced "to the research market" a nonradioactive DNA probe test to detect the virus that causes AIDS. But when *Barron's* noted only days later that Enzo has been in default on a \$30 million, 9% convertible bond, the stock plunged. In response, the company reiterated that it plans to issue new debt to replace the old bonds, convertible at \$5 a share instead of the previous \$12.75 a share. Then, on Jan. 13, Enzo announced that it was introducing eight products to

help researchers identify and trace the origins of metastatic cancer. While these are simply additions to Enzo's other monoclonal-antibody products for researchers, it was enough to drive the stock up again, to 7, where it remains.

But a trader who has shorted the stock believes that Enzo, which is trying to develop products based on molecular biology and genetic engineering, faces another big drop. For one thing, he thinks many bondholders won't go for the offering. If that happens, Enzo, which has been in the red since 1987, will be in a serious financial bind. At the same time, this pro believes that Enzo isn't ready to go into the clinical trials required to get Food & Drug Administration approval of its DNA test. Enzo Executive Vice-President Barry Weiner insists that trials will start this year and that an application for FDA approval will be filed in 12 months. He's also optimistic that the bond offering will be successful.

EXPERT SURFING AT OFFSHORE

With slumping energy prices providing little cheer to oil-and-gas producers, most oil-service companies are in deep financial straits. But not all. Offshore Pipelines, a provider of marine-construction services to offshore oil-and-gas producers, is thriving, thanks to its timely shift to international waters. Just as business was weakening in the U.S., Offshore sent its marine-services equipment, including a fleet of 14 vessels it acquired from a unit of Halliburton, to West Africa, the Middle East, and Asia.

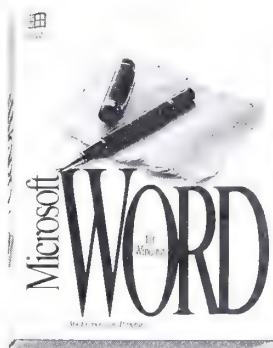
Offshore's order backlog quickly widened from \$49 million in 1990 to \$218 million as of Sept. 30, 1991. And after posting a 63¢-a-share loss in fiscal 1990 and a deficit of \$2.70 in fiscal 1991 (ended July 30), Offshore should earn about \$1 a share in fiscal 1992 and \$2 in fiscal 1993, say analysts.

No wonder Offshore's stock, which was down to 5 in July, has climbed to nearly 10 on the Big Board. "Based on Offshore's debt restructuring and my earnings projection of \$2 a share for 1993, the stock is well worth \$20 a share," says Don Dougherty of Boston's Putnam Management, which owns some 10% of the company's stock. He notes that Offshore has been able to compete internationally because of its low overhead and some savvy bargain-hunting: It picked up those 14 Halliburton ships for 25¢ on the dollar.

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Eamonn Sullivan, *PC Week*
“First Look Review,” October 21, 1991.



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EVERYONE IS BELLYING UP TO THIS BAR

Lever 2000's smash rollout recalls marketing's good old days

Denver mail carrier Carol Calcurian knows about Lever 2000: She has been hauling samples of the new soap along her route. She has tried it, too, and says it delivers: "I like the way it smells. And it lathers good."

Lever 2000, a triple-threat bar that moisturizes, deodorizes, and kills bacteria, has the soap market in a lather, too. A marketing blitz has sent samples of the new bar to half of all U.S. households. True, many consumers still prefer older brands. But just six months after its initial rollout by Lever Brothers Co., a U.S. division

soap and detergent businesses churning again. Lever researchers learned that many consumers weren't happy with the usual choice between moisturizing bars such as Dove, which don't deodorize, or deodorants such as Dial, which can dry the skin. So Lever technicians cooked up a patented process to combine moisturizing and deodorizing properties.

What to name this wonder bar? Lever executives coined several futuristic names, such as Nova 2000. Jack Cookson, Lever's president at the time, came

Tastefully effective is more like it, says James Patterson, chairman of J. Walter Thompson North America: "This is one of those commercials where you can turn off the sound and still get it."

People do get it. "The ads are really good. Lots of skin, you know," says Ellen DuPree, who works for a Boston insurance underwriter. Heavy sampling, massive distribution, and lots of discounting have helped, too. "It's everywhere," says Kleopatra Blackwood, a Cleveland office worker. "And it's always marked down." The initial couponing has knocked 75¢ off the average \$1.69 price for two 5-ounce bars, though Lever is easing up on the discounts.

FAST FADE. Retailers such as Kmart Corp. and Safeway Inc. report a brisk business in Lever 2000, but not everyone is a convert. Naysayers complain that the moisturizer makes Lever 2000 dwindle faster than deodorant stalwarts such as Dial. "I didn't



THOMPSON'S LEVER 2000 AD: "LOTS OF SKIN"

of Anglo-Dutch Unilever PLC, Lever 2000 is the No. 2 deodorant soap in dollar volume, with an estimated 8.4% share of the \$1.5 billion bar soap market. In a stunning upset, the new brand has helped Lever, which also makes Dove, wrest the title of top soap seller from archrival Procter & Gamble Co., maker of those bathroom icons Ivory and Safeguard (chart). Even rivals have nice things to say. "Lever 2000's a good product, no question," says John Pohl, who markets personal products for Dial Corp., maker of Dial soap.

SOAPY SALES. Lever 2000's success is bracing news for packaged-goods marketers, who have been hearing grim tales about consumers' growing indifference to branded products. "This proves people want new brands, especially in a category like soap that's saturated with old ideas," says Al Ries, chairman of marketing firm Trout & Ries.

This new brand got its start almost 10 years ago, when top managers were casting for ways to get Lever's mature

up with Lever 2000, which stuck, but also posed a problem. Says soap category manager Greg Creed: "We were getting bogged down with images of the year 2000." Initial ad ideas had as much to do with the space shuttle as with the shower stall. "It was 'family on the moon' kind of stuff," says Creed.

Ad agency J. Walter Thompson Co. ditched the futuristic theme with the tag line, "Presenting some of the 2000 body parts you can clean with new Lever 2000." And body parts—male, female, and infantile—are indeed what the playful TV spots present plenty of. Racy?

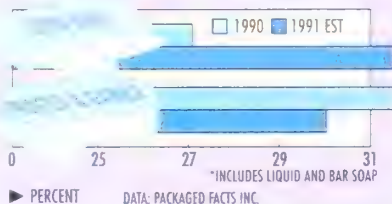
think it had a very good life span," says Kimberly Forster, who works for a directory publisher in Detroit.

Lever's Creed insists that this soap will have staying power. Early experience shows repeat sales of Lever 2000 hitting the 40% range, even after heavy discounting ends. At that rate, the brand should stay strong even after bargain hunters and onetime users switch. Tougher to estimate is the impact of new competition. P&G is still No. 1 in unit volume, and it has doubled Camay sales by reformulating the beauty bar.

A bigger potential threat is Spirit, a new three-in-one soap Dial now sells in 40% of major markets. "Spirit's share levels have exceeded objectives," says Dial's Pohl, who won't get more specific. Lever counters that Lever 2000 is performing strongly against Spirit. Consumers will get to vote soon: Spirit should be nationwide within a year. Meanwhile, Lever has the soap biz sudsing again.

By Christopher Power in New York, with bureau reports

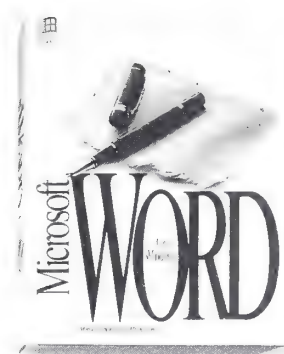
LEVER CLEANS UP PERCENT SHARE OF DOLLAR SALES OF SOAP*



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DON'T FORGET THE PC: COSTCO WAREHOUSES ARE AMONG PACKARD BELL'S CUT-RATE OUTLETS

HOW PACKARD BELL BROKE OUT OF THE PACK

The top-selling clones are as easy to run as they are to buy

When Richard Bartone decided to outfit his Playa del Rey (Calif.) travel agency with a PC network, he was a bit surprised to find it at a Costco Wholesale warehouse club outlet. But he was shopping there one evening for office supplies, and Packard Bell's personal computers and network setup seemed like a good deal. By making it so easy to buy, "they took a big burden off my hands," he says. Bartone's only problem: Costco's cash registers go to only \$10,000, but his tab came to \$26,000.

People like Bartone—not hung up on top brand names or fussy about where they buy computers—have boosted Packard Bell Electronics Inc. into the first tier of computer makers. The privately held Chatsworth (Calif.) company, starting from nothing in 1985, has quietly grown to an estimated \$1 billion in annual sales. Last year, according to preliminary figures compiled by a top market researcher, Packard Bell slipped past Compaq Computer Corp. and Tandy Corp. to capture third place in the U.S. PC market in terms of unit shipments. That makes the 850-employee company a distant third behind Apple and IBM but ahead of all the clonemakers.

Packard Bell got there by making it

easier than ever to buy and set up a PC. "Who would have thought a year ago that someone would go to a store with a pushcart and buy a computer?" asks Finis F. Conner, founder of disk-drive maker Conner Peripherals Inc. But what surprises industry veteran Conner was simply obvious to Packard Bell founder Benny Alagem. "We knew that PCs were going to become a commodity purchase," he says. "Consumers wanted something like a television—just turn it on and it works."

PLUG AND PLAY. Alagem, a 39-year-old Israeli immigrant who broke into the business as a semiconductor distributor, from the start sold PCs preloaded with popular software—so customers could simply turn on their systems and go. Alagem also understood early on the power of a known consumer brand name. He bought a venerable name—Packard Bell was once the No. 2 TV-set maker in the U.S.—from Teledyne Inc. for about \$100,000. To capitalize on it, Alagem adopted the slogan: "America grew up listening to us... It still

does." Then he approached the retailers who sell such commodity products as TVs, camcorders, and boom boxes.

As luck would have it, that put him in about the only part of the U.S. PC market that's growing. While the recession has curbed corporate budgets, devastating traditional computer stores, price-sensitive work-at-home buyers are gobbling up PCs. In 1991, PC sales through mass merchandisers and consumer electronics outlets grew 26%, while total PC sales were up a scant 1.6%.

Packard Bell now leads the new channels, with 25% of the business at department stores and warehouse clubs and 37% in consumer-electronics stores such as Circuit City. Astounded by the newcomer's sudden success, big-name PC makers such as Apple are now eyeing the new stores. IBM has already had one bad experience in mass merchandising. It made a big push into department stores with its PS/1 home computer in 1990 but was quickly outgunned by Packard Bell. Says William F. Lenahan, president of Sears Business Centers: "Four months later, Packard Bell had a competing product with more features and a big price differential."

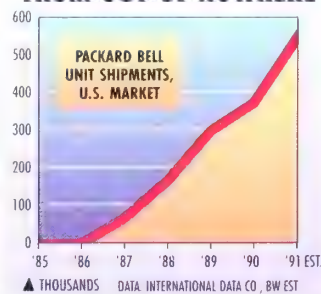
RETAIL SMARTS. Pricing is only part of Packard Bell's formula. It also has mastered the business practices of the mass merchandisers. Says Lee M. Levitt, computer distribution analyst at International Data Corp.: "IBM, Hewlett-Packard and AST are still scratching their heads and saying: 'What are end-caps? What are slotting fees?'" End-caps are end-of-aisle displays. And slotting fees, payments to the retailer for shelf space, are "something the other vendors still consider extortion," Levitt adds.

No doubt the others will eventually catch on, but Alagem professes not to be concerned. Still, he is beefing up the company's service and support, expanding its 800 number to weekends and evenings, and throwing in a year's worth of free on-site service with its warranty.

For Bartone, at least, everything worked as promised. He was so impressed that he went to a trophy store and ordered a plaque lauding the company for "excellence in service." And when *PC World* magazine surveyed buyers recently, all Packard Bell owners responding said that they would buy the same brand again. With customers like that, who needs computer dealers?

By Larry Armstrong
in Chatsworth, Calif.

FROM OUT OF NOWHERE

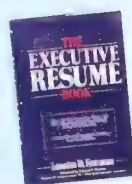


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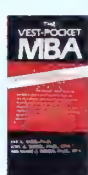
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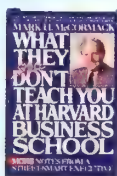
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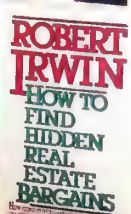
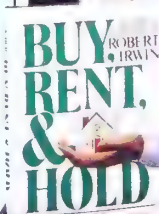
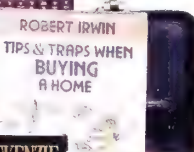


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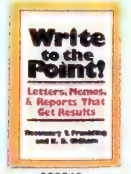
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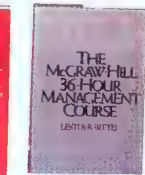
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CAN WAYNE CALLOWAY HANDLE THE PEPSI CHALLENGE?

The CEO earns high marks for his cultural upheaval—but growth is starting to slip

It wasn't that D. Wayne Calloway had never proven himself in the trenches. In two decades with PepsiCo Inc., he had earned a reputation as a sharp financial thinker and popular manager. But when Calloway took over as chief executive in 1986, it was with shaky knees. Where predecessor Don Kendall was a master of self promotion, the mild-mannered Calloway lacked confidence. Speechmaking unnerved him. When the two attended company meetings, Calloway would look deferentially toward Kendall, expecting him to address the group. Recalls Kendall: "I'd have to push him and say, 'Wayne, you're the chief executive officer.'"

Calloway, 56, may still approach business with a low-key, North Carolina style. But PepsiCo's CEO has emerged from Kendall's shadow to string together five impressive years of 20% compound earnings growth, doubling sales and nearly tripling the company's value on the stock market. Although earnings took a beating last year as recession

tore into Pepsi's soft-drink, restaurant, and snack-food businesses, Calloway insists the slowdown is temporary. Still, the question remains: Has the \$20 billion-a-year food conglomerate grown too big to maintain its heady pace?

"Absolutely not," Calloway says. "We don't see any limits to our growth." He vows to double PepsiCo's size again over the next five years. In part, Calloway says he'll do that with new products, new packaging, and new distribution channels. But there's more to it than that. With 300,000 employees worldwide, PepsiCo has become a behemoth. It's no longer enough to introduce another snack every few months or battle restaurant competitors with new menus and ever-lower prices. To prevent the company from staggering under its own weight, Calloway is seeking to reshape its corporate culture, too.

His message to a new Pepsi Generation is "Act like an owner, not a hired hand." It's the gospel of empowerment, and in preaching it, Calloway sounds like

a lot of other CEOs in America today. The difference is, PepsiCo's CEO is doing much more than preaching. He's betting the future of the company that deep delegation of authority will give him the returns he needs in PepsiCo's hotly competitive businesses.

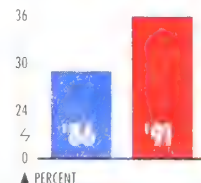
BAD TIMING. Calloway shows an unusual ability to put his ego aside, resisting the urge to meddle so his managers can win real decision-making powers. He's also working from the bottom up. Through a plan called SharePower, Calloway is giving all 300,000 employees stock options, from Pepsi-Cola truck drivers to KFC counter workers. Introduced in 1989, the plan grants employees yearly options on shares equivalent (at the current price) to 10% of their compensation. PepsiCo was the first major corporation to extend that traditional executive privilege on such a scale.

Calloway's push for cultural upheaval

RESTAURANTS

GROUP REVENUES
1986 1991*
\$2.7 BILLION **\$7.1 BILLION**

SHARE OF PEPSICO REVENUES



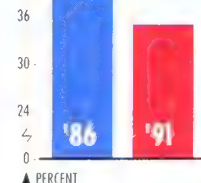
PIZZA HUT
8,800 UNITS
KFC
8,300 UNITS
TACO BELL
3,600 UNITS



THE CHANGING SOFT DRINKS

GROUP REVENUES
1986 1991*
\$3.6 BILLION **\$6.9 BILLION**

SHARE OF PEPSICO REVENUES



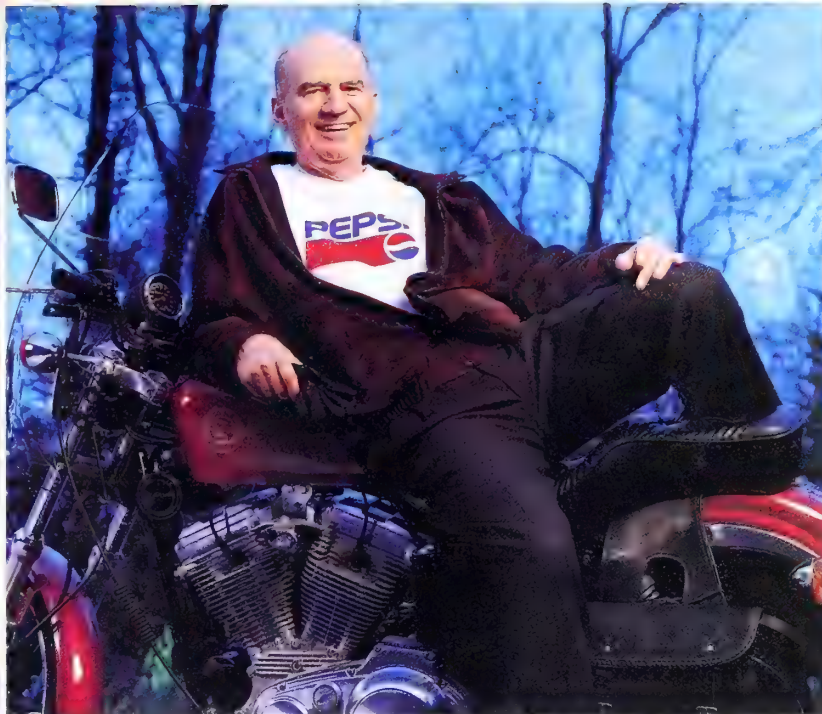
PEPSI
DIET PEPSI
MOUNTAIN DEW
7UP**
SLICE
MUG ROOT BEER



*ESTIMATE **OUTSIDE U.S. ONLY

ouldn't come at a
ougher time. As Pep-
Co suffers the recession's effects, competi-
on in its markets has
rown more treacher-
us. Domestic growth
soft drinks is sput-
tering. Bruising price
ars have become the
orm in chips and fast
ood. Competition in
nacks alone led last
ear to a restructur-
g at Frito-Lay Inc.,
ith \$91 million in
rite-offs and 1,800
yoffs. KFC, with
enu problems, is
so expected to re-
structure its domestic
usiness soon. Over-
as, Pepsi-Cola com-
etes under Coca-Cola
o.'s long shadow,
and now Coke is chal-
nging Pepsi in its
etetime stronghold, the former East
oc (page 94). Earnings will likely rise
out 8% for 1991, analysts say, com-
ared with 20% in 1990.

Calloway insists PepsiCo can hustle its
ay back onto the fast track. New prod-
cts in the works, such as a colorless
ola and a selection of tea- and fruit-
ased drinks, should help. PepsiCo's
ast-food outlets continue to pop up in
rports, factories, and anywhere else
e company can squeeze in a kiosk or
oncession. In the fast-growing interna-



CALLOWAY AT HEADQUARTERS: RISK-TAKING IS REWARDED, EVEN IF THE IDEA FAILS

tional arena, Calloway is pouring capital
into expanding restaurants, snack, and
soft-drink operations.

But the business of building PepsiCo
depends ultimately on employees, Cal-
loway says. So no conversation goes far
without returning to the idea of empow-
erment. Although PepsiCo manufactures
what it sells, it ultimately is a service
business. Frito-Lay salespeople, for ex-
ample, supply 200,000 accounts every
day. "Unlike General Electric or IBM, we
don't just win a couple of big contracts
each year and make \$50 billion," Cal-
loway told PepsiCo employees. "We
have to win them one pizza at a time,

one bag of chips, ev-
ery day."

That line of think-
ing is hardly new at
PepsiCo, which has
long stressed decen-
tralization. Calloway,
however, keeps beat-
ing the drum to push
power out even fur-
ther. Employees from
route salesmen to res-
taurant workers are
encouraged to come
up with ideas to im-
prove the business.
What's more, they
look at local profit fig-
ures to see how their
efforts measure up.

PIZZA, BORIS? And in
some areas, the idea
has worked dramati-
cally: A 17-year-old
worker at KFC in Okla-
homa City helped his
store increase catering

revenues almost sevenfold, to \$1,700 in
one month, after he crafted signs adver-
tising the service and put them in store
windows. Calloway's own favorite tale is
about the Moscow Pizza Hut manager
who sent 150 free pizzas and 20 cases of
Pepsi to Boris Yeltsin in the midst of
last summer's failed coup. "He didn't
call London or New York or some-
where," the CEO says proudly. "He just
did it."

But more freedom can also mean big-
ger mistakes. Wide latitude granted
Frito-Lay's sales force in early 1991 got
out of hand when discounts became so
attractive that smaller retailers began

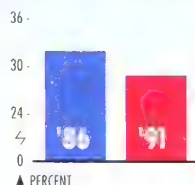
MENU AT PEPSICO



SNACK FOODS

GROUP REVENUES
1986 1991*
\$3.0 BILLION \$5.6 BILLION

SHARE OF PEPSICO REVENUES



1 9 9 1

**DORITOS
RUFFLES
LAY'S
FRITOS
SUNCHIPS
SMART FOOD**



DATA: PEPSICO INC., PRUDENTIAL SECURITIES INC

buying directly from supermarkets, which hurt margins. Calloway calls mistakes part of the package. "We're dealing with very aggressive competitors—in many cases, entrepreneurs with smaller businesses—and they don't have a board meeting to decide what to do. They just do it. So we have to be able to do the same thing," he says.

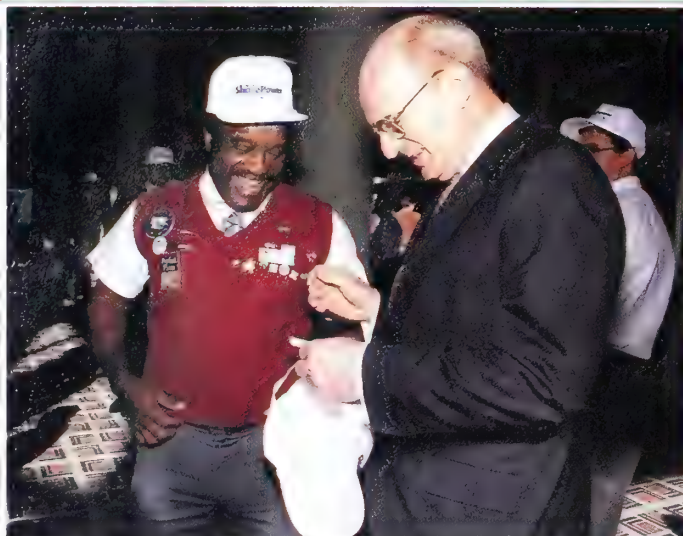
To ensure that PepsiCo is staffed with managers prepared to handle empowerment, Calloway spends far more time than most CEOs in the hiring process. No one at vice-presidential level or above gets a job without seeing him. Calloway interviews about 75 executives a year.

He is also personally involved in twice-yearly evaluations of management-level employees—roughly 600 people. Lawrence M. Drake II, a vice-president at KFC, recalls his own interview with Calloway: "We talked about how young people view education today. I think he was getting a sense if I matched the values he was looking for."

GO-GETTERS. Risk-taking is encouraged and often rewarded, win or lose. PepsiCo lost \$16 million trying to push its way into the packaged cookie business with Grandma's Cookies, before Nabisco Brands Inc. chased it out of the market by 1985. But John M. Cranor III, who engineered the cookie effort, has since moved on to head KFC. Says Cranor: "It was never 'You dummy, how could you do that?' [Calloway's attitude] was 'Gee, that made sense to do at the time.'" Pizza Hut lost \$20 million during Senior Vice-President Allan S. Huston Jr.'s ill-conceived nationwide rollout of a home-delivery system. But Huston went on to run KFC International, notes Calloway, because he "had integrity and wasn't hiding everything in his vest."

The Calloway approach has already transformed the culture, many say. As it did under Kendall, PepsiCo continues to attract go-getters who are willing to log long hours if they expect to move up. But under Kendall, says Michael H. Jordan, chairman of PepsiCo International Foods & Beverages, there was "a fair amount of friction over ideas," and the environment could be "pretty punishing." Calloway, who draws inspiration from motivational texts such as John N. Gardner's *Self Renewal*, emphasizes being "mutually supportive," Jordan says.

Calloway himself has also undergone a transformation, colleagues say. He has become more extroverted. Kendall partly credits Calloway's second wife, Jan,



THE "SHAREPOWER RALLY": MAKING EMPLOYEES THINK LIKE OWNERS

whom he calls a "dynamo." An effusive woman, Jan was a top-performing real estate agent in Dallas when they met. Calloway was running Frito-Lay. They got to talking at their children's 6 a.m. ice hockey games and married on New Year's Day, 1980.

When not off on PepsiCo business, Calloway is often busy with his duties as a director at Citicorp and Exxon Corp. and as chairman of the trustees at his alma mater, Wake Forest University. But he and Jan also find time to play golf and tennis and ski together. And in the past two years, he has been seen cruising the back roads of Greenwich, Conn., where the two live, on the Harley-Davidson 883 Jan gave him as a Christmas present.

Calloway hasn't always run with the Greenwich crowd. He was born in 1935 in Elkin, N.C., just 50 miles from the birthplace of Pepsi-Cola, and grew up in Winston-Salem. Calloway's mother supported him and his stepfather doing piecemeal work at a Hanes Cos. hosiery factory, and Calloway chipped in by work-

ing as a soda jerk and on an ice truck. A shy youth with flaming hair that won him the nickname "Red," Calloway was a star in math, baseball, and basketball, say former chums.

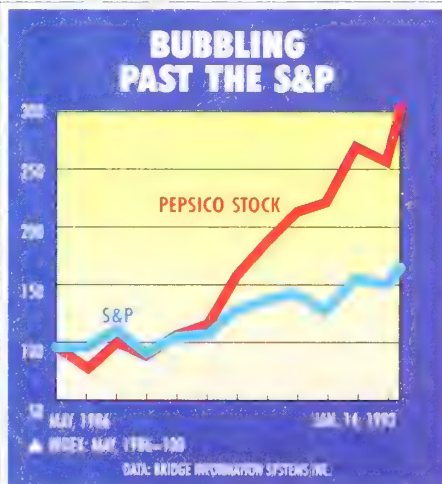
Calloway attended Wake Forest on a basketball scholarship. With few notions about how to prepare for a career, he says, he asked people for ideas about the toughest major: "I thought, if I'm going to be here [in college], I might as well get something out of it." He chose accounting. Laughs Calloway: "I thought I was going to be a CPA."

Instead, he joined the financial staff at Richardson-Vicks Inc. and later moved to ITT. But in 1967 he was lured to PepsiCo, formed two years earlier from the merger of Pepsi-Cola and Frito-Lay. Calloway started in financial operations. Kendall spotted him as a talent and began putting him through his paces. Kendall sent Calloway to head up PepsiCo's business in Canada in 1972, lumping soft drinks and snacks together so that he would have more to run. Calloway later tripled profits at Frito-Lay in seven years and served as CFO and president before his turn came to run PepsiCo.

In that first year, 1986, Calloway bought Kentucky Fried Chicken for \$841 million. Added to Pizza Hut and Taco Bell, that gave PepsiCo a presence in three of the four quickest-growing fast-food groups. With the sale of Wilson Sporting Goods Co. and North American Van Lines Inc., also in 1986, Calloway pared PepsiCo to its present form.

BRAINSTORMS. Calloway's agenda lately has focused on dreaming up new ways to make employees think like owners. Last fall, he put together the company's first-ever "SharePower Rally," in Atlanta, at which employees from every division gathered to hear Calloway explain how individual initiative drives the company's growth. At headquarters in Purchase, N.Y., last fall, he initiated a "Great PepsiCo Brainstorm," in which employees won prizes for contributing ideas on everything from thrift ("Buy PC clones instead of IBMs") to improving KFC's menu ("Get rid of mashed potatoes and corn").

Still, no matter how enthusiastically workers pitch in, Calloway holds ultimate responsibility to keep PepsiCo changing with the times. He can take credit for the hot growth of PepsiCo's restaurant group, which in 1991 passed soft drinks to become PepsiCo's largest



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Apt. #		Date of Birth (month-day-year)	

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The Immigration and Nationality Act requires employers to hire only persons who may legally be employed in the United States — citizens and nationals of the United States and aliens authorized to work. The revised Form I-9 has expanded and simplified instructions to assist employers in complying with the employment eligibility verification requirements. All employers must:

- Ensure that all employees fully complete Section 1 of the I-9 form at the time of hire — when the employee begins to work; and
- Review acceptable document(s) and fully complete Section 2 of the I-9 form within three (3) business days of the hire.

Other requirements include properly retaining Forms I-9, as well as making them available for inspection by officials of the Immigration and Naturalization Service, the Department of Labor, and the Office of Special Counsel for Immigration-Related Unfair Employment Practices.

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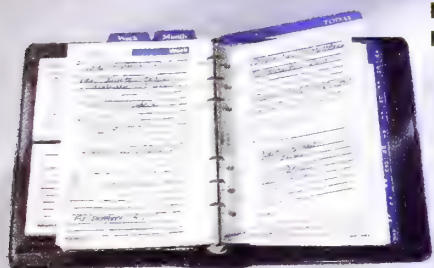
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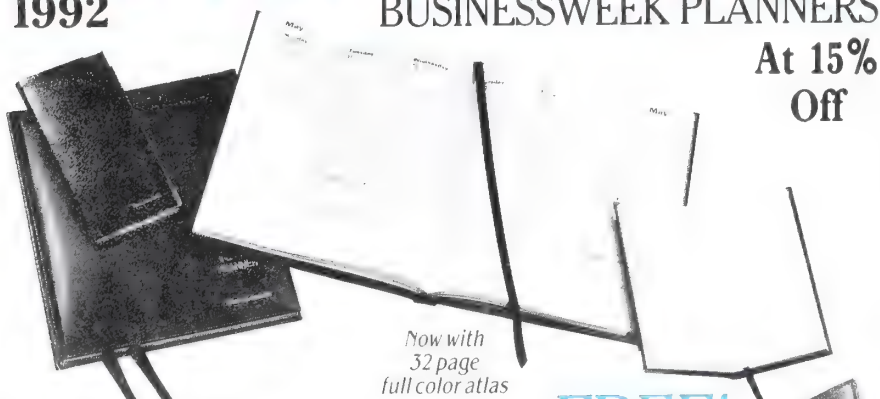
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People

revenue producer. But he'll also have to save the group's problem child, KFC.

In international markets, particularly Japan, KFC is growing at double-digit rates. But its U.S. business continues to drag. KFC has been slow to develop home delivery—a critical lapse, say restaurant experts. Customers have come to expect the same conveniences in fast-food chicken that they enjoy with pizza.

COLA WARS: ALL NOISY ON THE EASTERN FRONT

There's plenty to be said for the first. By following American GIs overseas in World War II, Coca-Cola built a powerful bottling system that years later allows it to outsell Pepsi-Cola 1 in Western Europe. But Pepsi has its own first to boast about: It popped open the Soviet Union.

Pepsi's ties to Russia go back 33 years to when Nikita Khrushchev tasted the bubbly stuff at an international trade fair. In 1964, Kendall, Pepsi's CEO at the time, had called on his friend, Vice-President Richard Nixon to arrange a meeting. By 1973, Kendall negotiated an exclusive agreement to sell cola in the Soviet Union, freezing out Coca-Cola until 1985. Thanks to those efforts, the former Soviet bloc is one of the few markets where Pepsi enjoys a strong lead over Coke.

But now the cold war is being replaced by the cola wars. And as governments shift from communism to free-market economies, Coke isn't being shy about firing shots in Eastern Europe. It already has launched moves into eastern Germany, Poland, the Baltics, and Ukraine. And on Jan. 16, Coke announced plans to build a syrup production plant in Moscow, which will allow it to set up 2,000 soda fountain kiosks all around the city. "A desirable economic environment simply didn't exist before, so we didn't have an emphasis on Eastern Europe," says E. Neville Isdell, president of Coke's Northeast Europe/Europe division. "Now we do."

The market potential in the region is enormous. Each of the 290 million citizens of the former Soviet Union consumes over 39 soft drinks a year on average, compared with the 770 servings each American gulps. And given that Pepsi and Coke together command less than 15% of the Soviet market, both stand to gain when the economies open up. "This whole market is going to explode," says D. Wayne Calloway, PepsiCo Inc.'s CEO. "Clearly we're going to participate in that, and so is Coke."

relations with franchisees have been rocky. Most of all, the menu has problems. Consumers are demanding less fatty fare, but KFC's Lite 'n Crispy chicken—since renamed Skinfree Crispy—hasn't been a huge hit, and the company has been slow coming up with other "healthful" offerings. Says franchisee John R. Neal: "You've got to have some diversity, and that means something besides fried this and fried that." Frito-Lay, too, has given PepsiCo

its main strength in the East is that it can tap the resources of a strong plant distribution infrastructure in Western Europe as it expands. For instance, when it mapped up all five of the former East Germany's bottling plants—beating Pepsi's punch—it imported managers from Germany in Frankfurt and West Berlin to help launch them.

THE STOLI. But Coke's presence still lags in comparison with Pepsi's. Pepsi sells 45 million cases in the Soviet region each year, about double Coke's share, according to industry newsletter *Beverage World*. And its 85 joint bottling ventures spread throughout the former Soviet Union and Eastern Europe give it critical mass. Pepsi also has strong countertrade



GOING PALMS: KHRUSHCHEV AND NIXON IN '59

agreements in the former Soviet Union. Because of the difficulties in converting rubles to dollars, it arranged in 1972 to exchange soft-drink concentrate for Stolichnaya vodka. Coke has barter deals, but it trades concentrate for products like Russia's Lada autos, which are less marketable than Stolichnaya. Calloway plays down the notion of a new market in Eastern Europe. "There's a big market out there," he says, "and there's more soft drink business than either one of them is getting going for a while." All the same, Calloway is willing to invest big and fight hard in the region, he could lose his diplomatic predecessor negotiating so hard to achieve.

By Walecia Konrad in Atlanta, with
a Rothman in Purchase, N. Y.



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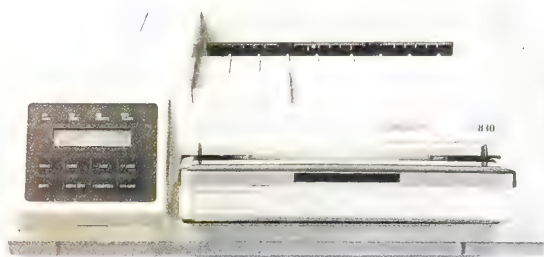
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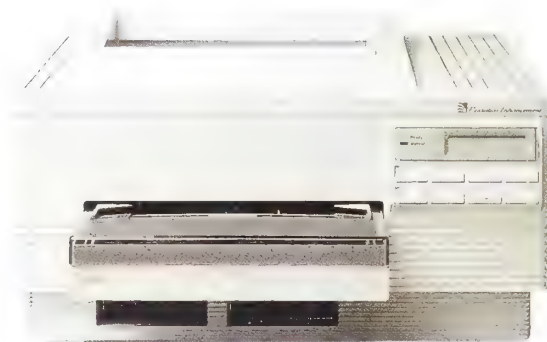
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headaches. The division had long been PepsiCo's profit engine: In 1990, it contributed 42% of operating profits on just 28% of sales. But price wars clobbered profits, and the restructuring knocked out a year's profit growth for the unit. Long-term prospects look promising. Beyond \$100 million in expected annual savings, Frito-Lay CEO Roger Enrico is seeking further efficiencies by cutting line items and looking into direct plant-to-store distribution. He says Frito-Lay should top 10% profit growth in 1992.

Some splashy moves on the advertising front may help. Calloway, who hired Madonna and Michael Jackson to hawk Pepsi-Cola, is pouring big money into Frito-Lay ads this year. Frito-Lay is spending more than \$2 million on a live comedy special that will air on the Fox Broadcasting Co. network across from the Super Bowl halftime show.

When it comes to advertising, Pepsi-Cola continues to steal the limelight. But that hasn't been enough. Although Pepsi brands have slowly upped U.S. market share, to 33.2%, Coke, with 40.9% now, has gradually widened its lead, says Jesse Meyers, publisher of *Beverage Digest*. Coke has won fountain business from Pepsi, notably Burger King Corp. and Wendy's International Inc., by convincing the chains that PepsiCo, as a competitor in fast food, shouldn't get their business.

Calloway won't back down from the cola wars, but mindful of the success of fruit-based and other noncola drinks, he thinks it's vital for Pepsi to expand the market as well. Pepsi has signed marketing agreements with Ocean Spray Cranberries Inc. and Thomas J. Lipton Inc. And its quest for successful bottled water and sports drinks continues with H2O! and All Sport in test markets.

'ROOM ENOUGH.' For the biggest opportunities, Calloway is looking overseas. PepsiCo's restaurant businesses already operate in 60 countries, but Calloway says those areas are hardly saturated. Its snacks business operates in 24 countries. In soft drinks, Coke remains king overseas, outselling Pepsi by 3 to 1, so Pepsi is waging a guerrilla war in selected markets. With the international beverage market set to grow 30% yearly through the 1990s, says Calloway, "there's room enough for both of us."

If anything holds PepsiCo back, Calloway says, it's finding the right people to manage its businesses. "We have consciously and deliberately created a corporate culture that sanctions individual power," Calloway told a roomful of executive search consultants PepsiCo assembled last December. If his strategy unleashes chaos, Calloway will have to answer for it. If it works, he can credit the employees.

By Andrea Rothman in Purchase, N.Y.

Economics

INVESTMENT

AN INVESTMENT BOOM? NOT SO FAST

Capital is cheaper, but low savings and demand will hurt

For most of the 1980s, it was a familiar refrain: The cost of capital in the U.S., business executives and economists agreed, was simply too high.

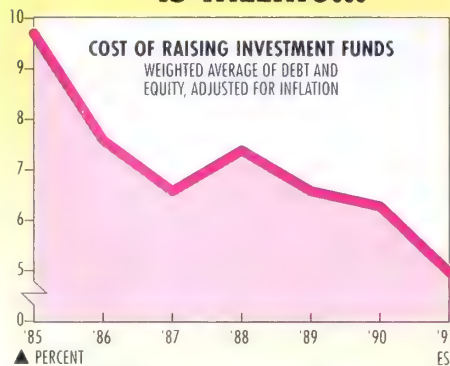
On that stark fact was blamed a litany of ills. Because of the high cost of capital, U.S. companies couldn't borrow as cheaply as German or Japanese companies. Because of the high cost of capital, U.S. companies couldn't raise equity as readily as their overseas competitors. Because of the high cost of capital, business investment in the U.S. grew at a paltry rate. Because of the high cost of capital, the U.S. economy was hopelessly disadvantaged in the global economic sweepstakes.

Well, the cost of capital in the U.S., by most people's reckoning, has come

speculative bubble has burst, and equity values have tumbled. And in Germany, borrowing rates are climbing.

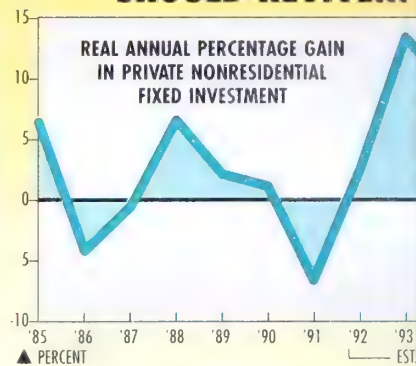
So it would seem that it's time for the other shoe to drop—for investment to pick up and for the U.S. to gain some competitive advantage. "U.S. and Japanese companies are lined up right next to each other," says Yozo Nishimura, economist at Bank of Tokyo. "The difference [in the cost of capital] is gone." There are good reasons to believe that the 1990s might herald a much-needed investment revival in the U.S., and there's little doubt that investment will in fact enjoy a cyclical rebound once the economy moves out of recession. But it's too soon to forecast an investment boom in the 1990s, and most observers are

THE COST OF CAPITAL IS FALLING...



DATA: SHEARSON LEHMAN BROTHERS INC., BW ESTIMATE

...AND INVESTMENT SHOULD REVIVE...



DATA: DRI/McGRAW-HILL

down over the past year or so. The full-percentage-point cut in the Federal Reserve's discount lending rate in December and the current rally in U.S. equity prices have pushed the cost of obtaining funds lower. Today, corporate issuers have to pay about 4% on 90-day commercial paper, down from 7% a year ago. Longer-term borrowers price their debt off 10-year U.S. Treasuries that yield 7% today, vs. 8.1% a year ago. Measures of the cost of funds to corporations show a marked decline in recent years (chart). Meanwhile, the cost of capital has ratcheted up overseas. In Japan, interest rates have been falling—but the

only guardedly optimistic about the investment outlook.

That's because investment isn't determined by cost alone. Economists still worry about the low savings rate in the U.S. and the chances that there will be more intense competition for the global supply of savings in the 1990s, as the world economy recovers and new investment opportunities are pursued. That could affect not only the price but also the availability and allocation of capital. Then there are concerns about the health of demand. Says Neal M. Soss, chief economist at First Boston Corp.: "The cost of capital is merely one incen-

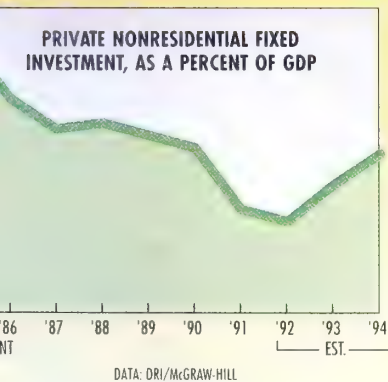
ve. Companies won't invest and take on new business risks unless they think there's a market for their products."

Near-term, the weight of the evidence appears to favor a pickup in investment. For starters, lower funding costs are enabling companies to refinance their debt and shore up their balance sheets. In recent weeks, big names such as American Telephone & Telegraph Co. have been able to raise long-term debt at less than a full percentage point above the 10-year U.S. Treasury rate of 7.4%. Initial public offerings have spurred higher.

BUILDING BLOCKS. Most of the monies aren't going toward new plant and equipment but toward lightening debt burdens accumulated in the 1980s or, in some instances, financing delayed acquisitions. Northeast Utilities in Berlin, Conn., has been trying for almost four years to acquire Public Service Co. of New Hampshire and control of its Seabrook nuclear plant. That goal now appears within reach. Mostly, to finance the deal, NU is selling 30 million shares of stock, which at current prices should net about \$690 million, considerably more than the \$540 million NU might have garnered four years ago.

For most of the 1980s, companies that wanted to expand chose to buy rather than build. In the 1990s, economists are hoping, it will become more economical

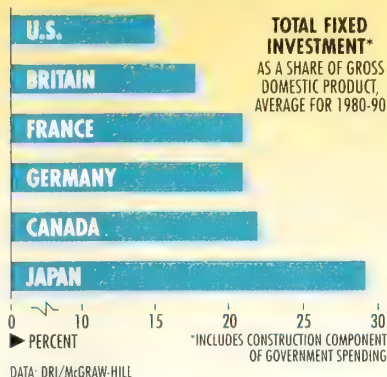
BUT ITS SHARE OF THE ECONOMY WILL STAY LOW



once again to build, and not merely because of more favorable terms in the financial marketplace. "Government has finally gotten the word that capital formation is a critical imperative," says Stephen S. Roach, senior economist at Morgan Stanley & Co. Congress is considering reviving some form of the investment tax credit (ITC), so that spending on equipment over and above some historical average would be rewarded. Also under discussion is a carefully targeted capital-gains tax, which might be applied only to investments in new startups.

In the short run, it's difficult to know

ONE WAY THE U.S. LAGS BEHIND



how much incremental investment occurs thanks to such tax subsidies, says James M. Poterba, an economist at Massachusetts Institute of Technology, since they generally kick in just as the economy is recovering. But over the longer haul, he says, "most economists would agree that an ITC leads to a higher level of capital accumulation."

And there are other factors that might prop up investment spending—demographic changes, for one. Labor-force growth is likely to slow to 1.2% a year in the 1990s, from 1.5% in the 1980s. The current wisdom is that with the supply of highly skilled and educated people dwindling, employers will be forced to spend money training new workers. But they may not choose that path. Just as labor, being plentiful, was a cheap substitute for capital in the 1980s, the reverse might be true in the 1990s. Executives might decide that labor is too expensive relative to capital and step up investment in labor-saving equipment.

'INDUCEMENT TO INVEST.' To some observers, it would seem that the U.S. has underinvested for so long, and at such detriment to its competitive position, that capital spending will rise in the 1990s simply because it has to rise. In the 1980s, according to calculations made by First Boston's Soss, compound annual growth in "productive" capital stock, excluding consumer housing and consumer durables, was 2.1%, down from 3% in the 1970s, 4.3% in the 1960s, and 3.9% in the 1950s. And figures from DRI/McGraw-Hill show that in the 1980s, total fixed investment as a share of output averaged 15% in the U.S., trailing that of all major trading partners (chart).

In order for past not to be prologue, there has to be what John Maynard Keynes called an "inducement to invest." And that depends on three criteria—a company's rate of interest (or cost); its marginal efficiency of capital (or return); and, finally, its long-term expectations. Here, like much else in the

economy, both supply and demand considerations play a role.

First, there is the matter of supply. Textbooks teach that over time, investment must equal savings, and most observers expect net national savings in the U.S.—the financial surplus of the private sector and state and local governments minus the federal deficit—to account for 3% to 4% of output in the 1990s, a far smaller share than the 7% to 8% it averaged in the 1960s and 1970s. That, in turn, means investment will take a smaller share of output.

Capital inflows from abroad, like those of the 1980s, will continue to supplement domestic savings, though at a reduced pace. "As long as the rate of savings in the private sector is low, dissaving in the public sector is large, demand for capital in Germany is large, and Japan is less of a capital exporter," says Benjamin M. Friedman, economist at Harvard University. "I don't see how capital on a worldwide basis is going to be any less scarce," he adds. That means both the price and the availability of capital may be constrained.

HIGH HURDLES. But perhaps the biggest unknown in forecasting capital outlays is the long-term outlook for demand, and that pertains to Keynes's point about long-run expectations. If U.S. executives aren't convinced that growth will revive around the globe and that demand for U.S. products will rally, there will be little incentive for them to take big risks in the 1990s.

Most managers contemplating investment projects still contend with internal "hurdle rates" of at least 15% to 18%. Those numbers represent what the project must return to the corporation as a payoff for earmarking the resources, and uncertainty about the economic outlook is keeping those hurdle rates high. Eventually, argues MIT's Poterba, if a lower cost of capital is sustained in the U.S., they should decline. Otherwise, companies may find themselves giving up profitable opportunities—or yielding control to new owners who detect those opportunities. For now, though, it is unrealistic to expect a rapid adjustment based on changes in interest rates and equity-raising costs that may not last.

These days, high hurdle rates and still-punishing debt levels might be enough to make executives think twice about new investment. But when they contemplate the near-stagnation of three years in which the average annual gain in output has been 0.9%, it's not surprising that many executives are gun-shy about taking risks. The "new prudence" in executive suites, warns First Boston's Soss, is what most threatens to keep a lid on investment in the 1990s.

By Karen Pennar in New York, with bureau reports

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HOW GOOD IS ATTENDANCE IN CHRIS WHITTLE'S CLASS?

Channel One may not be delivering the viewers it sold sponsors on

Advertisers and rival media executives sometimes wonder whether Chris Whittle is a visionary or a man who could sell ice cubes to Eskimos. Whittle's most controversial project, Channel One, isn't likely to provide the answer. The media entrepreneur introduced the satellite TV network in 1989 with the extravagant promise that it could reach millions of children aged 12 to 17 in their own classrooms. Despite fierce opposition from educators, Whittle signed up 10,000 schools. And today, more than 6 million students are exposed to Channel One's 12-minute dose of news and commercials.

At least that's what Whittle tells PepsiCo, Sears, Philips Electronics, and the 12 other marketers he persuaded to buy spots on Channel One. But a recent sampling by the National Education Assn. (NEA) says only 40% of students actually watch the program. And some ad execs are starting to question whether Channel One's audience is as desirable as Whittle promised: "There needs to be some sort of independent

verification of viewership," says Michael P. Moore, worldwide media director of Arcy Masius Benton & Bowles Inc., which represents Procter & Gamble Co. and other sponsors. "This is something advertisers are looking at."

SECOND THOUGHTS. Such skepticism is not new for Whittle, who has often raised hackles by claiming that his niche products reach more targeted audiences than traditional media. But it is a troubling development for a venture already under fire from people who object to commercials in classrooms. Now, the furor seems to be worrying some of Channel One's advertisers and prominent supporters.

One sponsor, Nike Inc., is having second thoughts about renewing its contract: "You have to step back and take a look at the ethical issues," says Adver-

tising Director Scott A. Bedbury. The Texas school board has said that it will consider a ban on Channel One next month. In the wake of that, Texas-based billionaire H. Ross Perot resigned from Channel One's advisory board on Jan. 9 because ads in schools, he told *BUSINESS WEEK*, are "not something I want to lend my name to." After Perot sent his resignation, Whittle persuaded him to wait until he could meet with company execs.

All this should give Whittle pause. Channel One accounts for about 40% of

to reach an often elusive audience.

But even research Whittle supplies to sponsors says only 58% of students watch the program. The trouble is, most schools show it during homeroom periods, which are filled with administrative chores and other distractions. "Homeroom is a busy time. The last thing I need is the TV blaring," says one Houston teacher, who won't give her name for fear of losing the free TV Whittle gives to every classroom that signs up.

Indeed, the lure of free TVs is one reason Whittle has signed up so many schools. But the NEA, which opposes Channel One, claims that the majority of Whittle schools are in rural areas that are financially strapped, so they're hungry for the equipment. Most big suburban districts already have TVs. They also have the more affluent students whom advertisers want to reach. Whittle doesn't break down Channel One's audience into rural, urban, and suburban districts. But Winter says it has a foothold



the revenue of Whittle Communications LP, half-owned by Time Warner Inc. The Knoxville company also produces *Special Reports*, a magazine and TV service distributed to doctors' offices. Channel One's impressive growth helped boost company revenues 30%, to \$207 million, in the fiscal year ended last June.

Whittle was unavailable for an interview. But Ed Winter, head of Whittle Educational Network, says: "We've never lost a single advertiser. So that tells me they're pleased with the results." He points out that Channel One reaches 33% of students aged 12 to 17—up to three times as many as top-rated network TV shows. What's more, at an average cost of \$157,000 per 30-second spot, Channel One is only half the price. Indeed, most of Channel One's advertisers believe the broadcast is a highly effective way

in and around 16 major cities.

Most advertisers signed three-year contracts when Channel One was launched, so any fallout won't come until renewal time later this year. The company already plans to invest \$50 million to sign up an additional 2,500 schools.

But further expansion may be tough. Whittle lost a potential infusion of \$350 million late last year when a partnership deal with LBO firm Forstmann Little & Co. fell through, largely because senior partner Theodore J. Forstmann doubted Whittle's ambitious growth projections. Whittle executives say they plan to announce news in late January that could affect the company's finances. But if advertisers start harboring doubts about Channel One, the debate over growth could quickly become academic.

By Walecia Konrad in Atlanta

WHEN PAIN ITSELF IS THE DISEASE

Penny Cowan had been suffering from fibromyalgia for six years before she went to the Cleveland Clinic. A type of soft-tissue arthritis, the condition is painful, debilitating, and incurable. "When I got to the pain unit, I couldn't even hold a cup of coffee," says Cowan. She spent seven weeks at the clinic, where a multidisciplinary team of health care professionals did the opposite of what other doctors had done: Instead of concentrating on Cowan's physical symptoms, they focused on her quality of life.

One out of three Americans suffers chronic pain, ranging from persistent backaches or migraines to the agony of cancer. Yet until fairly recently, much of the medical community neglected the treatment of pain. Now, approaches are evolving to help millions of people who have been frustrated by conventional medicine. Clinics treating chronic pain have opened around the U.S., returning people to productive lives.

NOT A SYMPTOM. A major breakthrough has been the recognition that chronic pain differs from acute pain and shouldn't be treated the same way. Acute pain generally results from an injury or trauma, and it abates when its organic cause is healed. So

acute pain is treated as a symptom. But "with chronic pain, the pain is the disease," says Dr. Norman Marcus, director of the New York Pain Treatment Program at Lenox Hill Hospital. Recent research has shown that the central nervous system may even

process the signals for these two types of pain differently.

Many pain experts now believe chronic pain, usually defined as lasting six months or more, responds best to treatment that's virtually opposite to that for acute pain. For example, a patient with a bro-

ken leg should rest, take pain medication as needed, and pay attention to any increase in discomfort. But a patient with chronic neck pain should exercise moderately, end any dependence on drugs, and avoid "pain behavior"—the tendency to focus one's consciousness and to organize one's activity level around the pain.

Successful therapy reeducates patients, in addition to addressing their suffering. "Chronic pain management is an ongoing process," says Cowan, now executive director of the non-profit American Chronic Pain Assn. in Sacramento, Calif.

TEAMWORK. The best pain clinics teach coping skills, as well as providing state-of-the-art medical treatment. While no uniform method has been developed to certify pain facilities, the Commission on Accreditation of Rehabilitation Facilities (CARF) has developed standards for multidisciplinary clinics, with the help of the American Pain Society. Currently, there are 127 CARF-accredited clinics in the U.S.

Close to 1,000 nonaccredited facilities bill themselves as pain clinics, but they often consist of a single practitioner, such as a chiropractor or biofeedback specialist. American Pain Society President John Reeves thinks pain patients should stick to multidis-



iplinary treatments. Most JRF-accredited clinics are staffed by neurologists, psychiatrists, physical therapists, family counselors, and other professionals who work as a team in a comprehensive rehabilitation program.

Why does a multidisciplinary approach often succeed better than long-term medication or, say, nerve-block therapy? "Chronic pain is more than a pain experience," says Lenox Hill's Marcus. "It's an interruption of a person's life." Doctors accustomed to treating the acute pain that accompanies disease often become frustrated when no clear organic disorder is found in a chronic pain patient. They may even doubt the pain is real, causing patients the further misery of feeling "crazy."

THE UNDERLYING MATTER. In fact, however, one of the most significant advances in pain research is a better understanding of the relationship between mind and body. Certain chronic pains, including migraines, muscle spasms, and some gastrointestinal disorders, have been shown in many patients to be due to psychological problems such as stress or low self-esteem.

Usually, by the time pain patients enter a clinic program, they have already visited several doctors who ruled out any underlying disease or injury. In a pain clinic, doctors will look for psychological and lifestyle factors that can contribute to a chronic pain condition. These could include alcoholism, an unhappy marriage, an unsatisfactory career, or even childhood traumas. For example, a study conducted at the University of North Carolina found that, of people reporting chronic irritable-bowel syndrome, which causes abdominal pain each time the sufferer eats, 53% had been abused as children.

Similarly, migraine sufferers tend to be Type A personalities—overachievers who pay inadequate attention to their own needs. One type of headache, the muscular migraine, is clearly stress-related,

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- ▶ **American Chronic Pain Assn.**, Sacramento, Calif. (916 632-0922)—Self-help organization for pain patients, publishes workbook, teaches coping skills
- ▶ **National Chronic Pain Outreach Assn.**, Bethesda, Md. (301 652-4948)—Information clearinghouse, makes referrals, publishes newsletters
- ▶ **American Pain Society**, Skokie, Ill. (708 966-5595) Professional organization of physicians and pain-management experts. Makes referrals

MULTIDISCIPLINARY CLINICS

This selective list names top programs based on similar philosophies of pain management, though some put slightly stronger emphasis on psychiatry or neurology

- ▶ **Cleveland Clinic Foundation Research Institute** (216 444-3900)
- ▶ **Johns Hopkins Pain Management Service**, Baltimore (301 955-1816)
- ▶ **Mayo Clinic's Pain Management Center** at St. Mary's Hospital, Rochester, Minn. (507 255-5921)
- ▶ **Mensana Clinic**, Stevenson, Md. (410 653-2403)
- ▶ **New York Pain Treatment Program**, Lenox Hill Hospital, New York City (800 548-3242)
- ▶ **Pain Control & Rehabilitation Institute of Georgia**, Atlanta (404 297-1400)
- ▶ **University of Miami Comprehensive Pain & Rehabilitation Center** at Southshore Hospital, Miami (305 672-3700)
- ▶ **University of Washington Pain Center**, Seattle (206 548-4282)

CANCER CENTERS

These cancer care and research hospitals also have multimodality clinics devoted to pain management and quality of life

- ▶ **Fred Hutchinson Cancer Research Center**, Seattle (206 667-5000)
- ▶ **Memorial Sloan-Kettering Cancer Center**, New York City (212 639-2000)

DATA BW

ed, so that patients can be taught to control pain with biofeedback and relaxation therapy. These techniques also work well with temporomandibular joint (TMJ) syndrome, in which jaw-clamping or teeth-grinding can cause severe head and face pain.

Medical science, too, has

Chronic pain therapy now focuses on quality of life instead of physical symptoms

made strides in pain management. Procedures such as trigger-point saline injections, which destroy degenerated muscle tissue, and transcutaneous electrical nerve stimulation (TENS), which sometimes relieves muscle pain by inducing relaxation, are coming under fire from many experts, since they don't promote healing and usually provide only temporary relief.

Also, chronic pain patients dependent on opioid drugs are increasingly being weaned away from them, in favor of more effective medicine, such as sumatriptan or DHE-45 for migraine, and tricyclic anti-

pressants for other types of pain. Many patients are being taken off drugs altogether.

Sufferers from chronic back pain, who make up about 70% of pain-clinic patients, have the most to gain from learning to live without pain medication, experts say. That's because painkillers and sedatives encourage immobility, which starts a vicious cycle: The less you move, the more it hurts to move, and the less you move. For most patients with muscle or joint pain, says Marcus, "the fear of movement is a major impediment to getting better." Pain clinics often begin by detoxifying such patients and then beginning a program of so-called graded exercise, in which activity levels are slowly raised.

MORE MORPHINE? The medical community is still debating pain management for cancer sufferers and terminally ill patients. Some experts believe the biggest problem has been undermedication of cancer patients, based on unrealistic fears about turning dying people into drug addicts. In fact, new research has shown that people who take morphine or derivatives for pain management almost never abuse the drugs, even when allowed to dose themselves at will. Now, more hospitals and cancer centers are medicating patients preventively, giving them more frequent doses to stave off pain rather than waiting until pain has become severe.

Others believe that, even for terminally ill patients, quality of life should be the primary goal of pain managers. They suggest that the only difference between treating cancer and migraine patients should be in the level of analgesics allowed. A cancer patient in chronic pain may be able to live almost normally with a surgically implanted morphine pump that releases regular doses, if pain therapy also includes rehabilitation. Such new approaches to chronic pain treatment promise great relief for patients and their caregivers in the years ahead. *Joan Warner*

Potables

BRANDIES THAT DON'T SPEAK FRENCH

All cognac is brandy, but not all brandy is cognac: So the French have always boasted, and most devotees of the after-dinner drink would agree. But now, other nations are taking the Gallic spirit on, with *digestifs* that attempt to rival the finer cognacs.

Do they succeed? Not quite: "Cognac is still the paradigm, and others try to imitate that," says Stuart Gray of Morrell & Co., a New York retailer whose stock of non-French brandies has doubled since 1989. Still, for *digestif* fans, brandies from Spain, Italy, and even the U.S. offer interesting alternatives. And they cost from about \$40 to \$65—one-third the price of a

comparable cognac.

While almost all wine-producing country makes brandy, "the Spanish are the biggest competitors among cognac wannabes," says Gray. That would probably insult the Spanish, who claim they invented the art of making brandy 1,000 years ago. However, serious marketing began only three years ago, when the Spanish government instituted cognac-like age appellations. Brandies in the highest category, *solera gran reserva*, must be aged at least three years, but most are 15 years old.

All *solera gran reserva* brandies come from the Jerez region. Old sherry casks are used in Spain's unique *solera* aging method, in which younger brandies blend with older ones in oak barrels. It's the *solera* process, along with the



ranging from the slightly fiery Imperial to the chocolatey Gran Duque D'Alba (\$40).

ITALIAN SUN. Italy is usually associated with that alcoholic paint thinner called *grappa*, but now it is exporting more subtle *digestifs*. One of the newest—and finest—is 15-year-old Vecchia Romagna Riserva Rara. Distilled like cognac, it uses different grapes and woods in its casks. It seems lighter and less oily than the Spanish brandies but fruitier and softer than cognac.

A few California

producers are using traditional French methods to make cognac-style brandy. The results are coarse, compared with the real thing. Still, those such as Germain-Robin (\$30) are a far cry from California's best-used-as-a-mixer efforts of old. *Troy Segal*

sherry-cask residue, that accounts for Spanish brandy's tasting richer, heavier, and "decidedly sweeter on the palate than cognac," says Hersey Egginton of Domecq Importers, which distributes Carlos I Imperial (\$65). But style can vary among labels,

Plunging interest rates can be joyful news for borrowers. But not for savers looking to reinvest the proceeds of maturing certificates of deposit.

On average, institutions that offered 5% on three-month CDs last October now are paying 3.75%, and rates of barely 6% are common on ones that tie up your money for three to five years. There may be only marginal differences in rates at banks and S&Ls in your area. One way to do better is to mail off a check and entrust your savings to a distant institution.

Most of the federally insured institutions offering top interest today can provide sound explanations why they're giving depositors a better deal. Take Continental Savings of America in San Francisco. A Jan. 9 survey showed its five-year CD at 6.58%, for a 6.8% effective annual yield, on a minimum in-

WHERE THE YIELDS ARE: A CROSS-COUNTRY GUIDE

vestment of \$500. That's tops in the country, says Financial Rates' *100 Highest Yields* newsletter in North Palm Beach, Fla. Continental CEO Chuck Chenes says his bank has 14 area rivals and

doesn't aim regularly for large-sum depositors via high rates. "But we can offer a bit more because we don't have a branch office on every corner," he says.

Similarly, California Thrift & Loan in Santa Barbara pays 6.42% on a four- to five-year CD of \$2,000 or more. Robert Heavner, executive vice-president, explains that it's affordable because California Thrift doesn't have checking accounts, ATMs, or fancy offices. The S&L heads the top-rates list on one-year CDs, too: 5.26%, for a 5.39% yield.

Just behind on one-year CD rates is Custom Savings in Baltimore, which pays 5.25% on a \$2,500 minimum. The

same institution pays 5.1% on six-month CDs. But in each case, the rate is for simple interest only, with no compounding.

SPECIALS. Such a detail may show up in fine print, so check carefully to see how interest is compounded: Is it daily, monthly, or quarterly? The greater the frequency, the higher the reward.

Banks aren't the only places to look. Credit unions typically offer higher rates than many banks. Keep an eye out, too, for special promotions in your area. For example, depositors who live in California can latch onto Home Federal Bank of San Diego's "flexible" seven-month CD that pays 5.5% on a minimum \$2,500. They get a onetime option to withdraw the money without penalty if they think it can be invested elsewhere at a higher rate. Or they can pour in an additional sum for the remainder of the CD's term if interest rates continue their slide.

Don Dunn

CD RATE LEADERS

CD term/ Institution	Minimum deposit	Annual yield* Jan. 8, 1992
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1 YEAR	2,000	5.39
California Thrift & Loan, Santa Barbara 800 852-0587		
5 YEARS	500	6.80
Continental Savings, San Francisco 415 861-5554		
1-YEAR T-BILL	10,000	3.95

*Effective, after compounding
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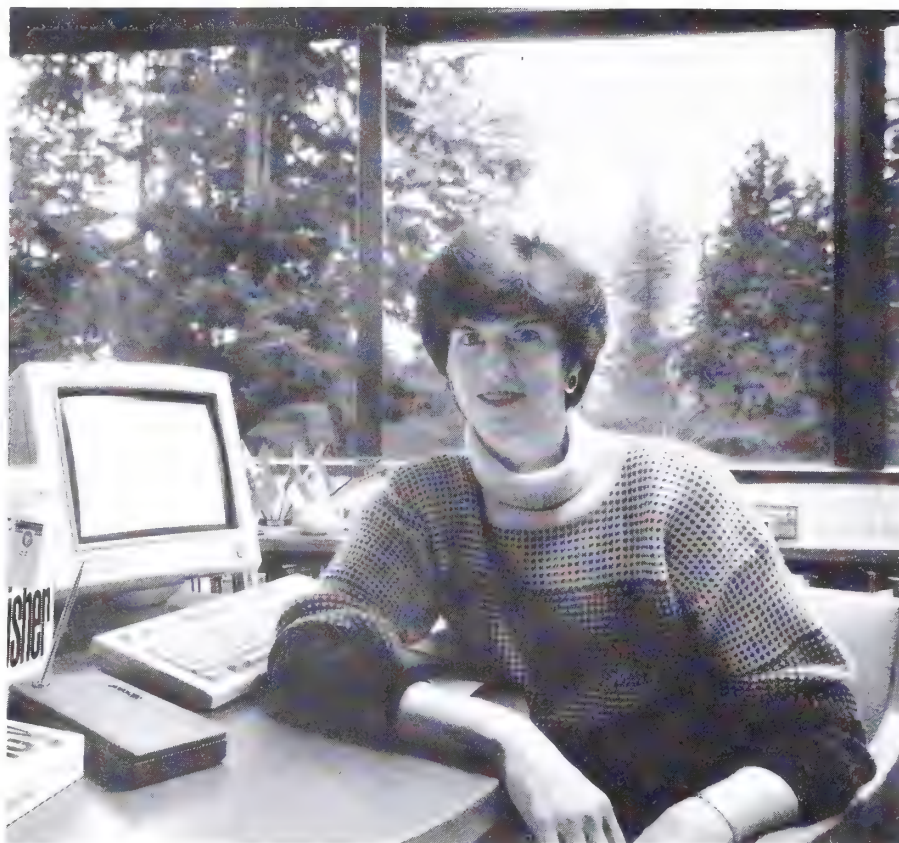
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—Tricia Green, Director, International Products, **Microsoft Corporation**

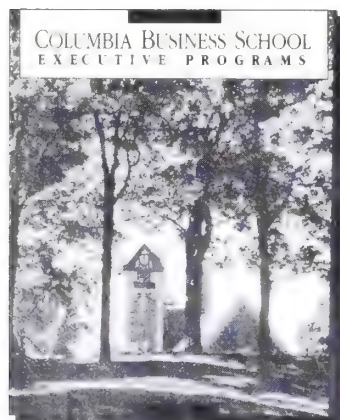
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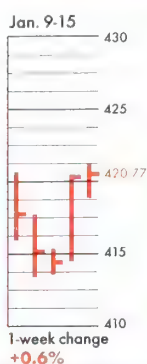
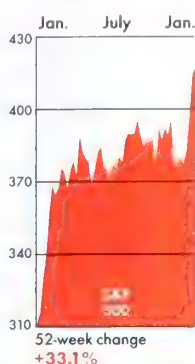
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Investment Figures of the Week

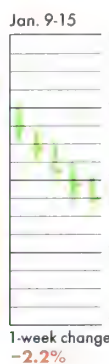
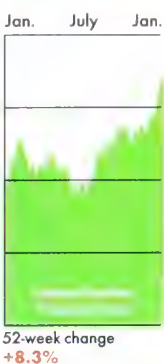
COMMENTARY

Another week for the record books. The Dow industrials shot up 0.6 and 12.3 points on Jan. 14 and 15, respectively, to reach 258.5, a new all-time high. Small stocks continued to sparkle, too, with the Russell 2000 making a 1.1% gain for the week, near twice that of the Dow. Analysts attributed the rise to a flood of new money in search of higher returns and expectations of an economic recovery later this year. Profit-taking in the fixed-income market, where prices fell and interest rates backed up.

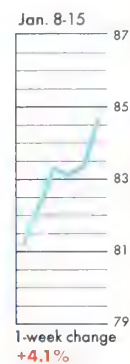
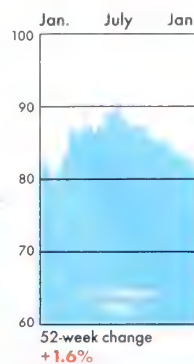
STOCKS



BONDS



THE DOLLAR



MARKET ANALYSIS

U.S. STOCKS

	Latest	% change Week	% change 52-week
DOW JONES INDUSTRIALS	3258.5	1.7	29.9
DOW JONES SMALL CAP COMPANIES (Russell 1000)	223.6	0.8	36.0
DOW JONES MIDDLE MARKET COMPANIES (Russell 2000)	204.3	3.1	61.1
DOW JONES LARGE CAP COMPANIES (Russell 3000)	238.4	1.0	37.3

FOREIGN STOCKS

	Latest	% change (local currency) Week	% change (local currency) 52-week
LONDON (FINANCIAL TIMES 100)	2537.1	2.8	23.5
TOKYO (NIKKEI INDEX)	21,775.1	-4.1	-3.2
TORONTO (TSE COMPOSITE)	3656.7	4.0	15.6

FUNDAMENTALS

	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	3.93%	3.83%	6.2%
30-YEAR TREASURY BOND YIELD	7.58%	7.40%	8.4%
S&P 500 DIVIDEND YIELD	2.95%	2.98%	3.9%
S&P 500 PRICE/EARNINGS RATIO	21.8	21.4	13.6

TECHNICAL INDICATORS

	Latest	Week ago	Reading
S&P 500 26-week moving average	389.9	388.4	Positive
Stocks above 26-week moving average	66.2%	62.3%	Neutral
Speculative sentiment: Put/call ratio	0.32	0.29	Neutral
Insider sentiment: Vickers sell/buy ratio	1.67	1.75	Positive

INDUSTRY GROUPS

OUR-WEEK LEADERS

	% change 4-week	% change 52-week
LEISURE TIME	33.1	63.2
HOTELS AND MOTELS	27.1	46.7
HOMEBUILDING	26.1	93.8
TRANSPORTATION SERVICES	24.5	35.6
MACHINE TOOLS	22.1	20.9

OUR-WEEK LAGGARDS

	% change 4-week	% change 52-week
NATURAL GAS DISTRIBUTION	-2.2	-14.9
GOLD MINING	0.2	-18.7
ELECTRIC POWER	0.9	19.0
INTERNATIONAL OIL	3.2	12.4
INSURANCE BROKERS	3.4	7.4

Strongest stock in group

	% change 4-week	% change 52-week	Price
OUTBOARD MARINE	39.0	64.4	21 3/8
PROMUS	52.1	111.4	27 3/4
KAUFMAN & BROAD HOME	30.1	93.4	18 3/8
FEDERAL EXPRESS	25.5	26.4	41 7/8
MONARCH MACHINE TOOL	52.2	21.4	12 3/4

Weakest stock in group

	% change 4-week	% change 52-week	Price
PANHANDLE EASTERN	-9.6	27.0	14 1/8
PLACER DOME	-6.0	-36.8	9 7/8
NORTHERN STATES POWER	-5.2	25.4	40 3/4
AMOCO	0.5	-0.8	48 1/4
MARSH & MCLENNAN	1.1	8.2	77 3/4

BRIDGE INFORMATION SYSTEMS INC.

MUTUAL FUNDS

LEADERS

	Four-week total return	%
MUTUAL OF OMAHA GROWTH	20.9	
MFS LIFETIME EMERGING GROWTH	20.1	
CIGNA AGGRESSIVE GROWTH	20.0	

2-week total return

	%
OPPENHEIMER GLOBAL BIO-TECH	153.6
AMERICAN HERITAGE	118.6
FIDELITY SELECT BIOTECHNOLOGY	116.6

LAGGARDS

	Four-week total return	%
STRATEGIC GOLD/MINERALS	-5.7	
CUMBERLAND GROWTH	-4.4	
NIKKO JAPAN TILT	-2.8	

52-week total return

	%
STRATEGIC GOLD/MINERALS	-26.3
STRATEGIC INVESTMENTS	-22.7
FIDELITY SELECT ENERGY SERVICE	-17.1



MORNINGSTAR INC.

RELATIVE PORTFOLIOS

Dollar amounts represent the present value of \$10,000 invested one year ago in each portfolio. Percentages indicate five-day total returns.



DATA RESOURCES INC.

All data on this page are as of market close Wednesday, Jan. 15, 1992, unless otherwise indicated. Industry groups include S&P 500 companies only; performance and share prices are as of market close

Jan. 14. Mutual fund returns are as of Jan. 10. Relative portfolios are valued as of Jan. 14. A more detailed explanation of this page is available on request.

WHEN FREE TRADE CARRIES TOO HIGH A PRICE

President Bush was right in saying that "jobs, jobs, jobs" are at stake in U.S. efforts to narrow the trade gap with Japan. Unfortunately, his hat-in-hand mission to Tokyo proved to be a public-relations disaster that diverted attention from the basic problem: The chronic U.S. trade deficit with Japan shows no signs of going away.

Tokyo's pledge to buy more U.S. auto parts, computers, and paper products is too little and too late. The underlying problem is that Tokyo manipulates its trade and external economic relations to extract one-sided, long-term benefits for itself. It has, for example, consistently stopped foreigners with new technologies from attempting to gain market share in Japan until Japanese companies have had time to develop competitive products. By contrast, the U.S. mostly lets the market shape trade with Japan.

This U.S. free-trade approach yields mutual benefits in dealings with countries that hold to the same basic principles, such as Canada. But after a decade of massive trade deficits with Japan, the U.S. must forge a strategy to cope with Tokyo's incompatible practices. To be sure, Tokyo is right in complaining that many U.S. companies, including carmakers, don't try hard enough to meet the demands of the Japanese market. But it is also true that many U.S. companies, including the auto makers, are able to compete elsewhere, where the playing field is reasonably level.

To stanch the loss of U.S. jobs and industrial capacity reflected in last year's \$41 billion trade deficit with Tokyo, the U.S. must temporarily manage its trade with Japan—or any country that regularly breaks the rules of open trading at the U.S.'s expense. The way to do this is not through ad hoc Presidential forays but with carefully designed and targeted agreements, backed by Washington's bargaining clout as gatekeeper to the world's biggest market.

Negotiating for limited, temporary trade targets wouldn't

be entirely new. In 1986, for example, Washington successfully pressured Tokyo to allow U.S. semiconductor makers a 20% share of the Japanese market, virtually closed to them until then. The lever that extracted the semiconductor concession from Tokyo was Section 301 of the U.S. trade law, which authorizes retaliation against unfair trade practices. Since autos and auto parts account for 75% of the deficit with Japan, Washington obviously needs to address the problems in this sector. But it should use its bargaining power as gatekeeper primarily to pry open markets abroad for fast-growing, high-tech U.S. industries and to curb unfair competition in such sectors—not to protect U.S. producers at home. Valid targets might arguably include Europe's government-protected telecommunications networks and heavy European subsidies for Airbus Industrie.

Acting to close the trade gap and open foreign markets can't, by itself, halt the U.S. industrial decline. That will require overhauling basic economic and social policies to support an overriding goal: to restore U.S. global competitiveness. Otherwise, the U.S. is in danger of becoming a supplier of mostly medium-tech products, made by workers whose real paychecks are already shrinking. Much of what needs to be done is well-known. Taxes must be redesigned to spur savings over consumption and productive investment over speculation. Schools must be radically improved, and workers trained better. Financial regulations must encourage managers to plan for the long term, not just the next quarter. Voters must support curbs on deficit spending, from runaway health costs to farm subsidies.

What's lacking so far is the political will to make hard choices. Above all, voters should understand that at the end of the election campaign now under way, they will choose how and whether America can become competitive again.

KEIRETSU, AMERICAN-STYLE

Since the trust-busting days of Teddy Roosevelt, U.S. industry has been making a virtue of necessity. Faced with lawsuits and even prison for violating antitrust laws, post-Depression executives soon came to shun any semblance of cooperation with their rivals. The go-it-alone outlook, always congenial to Americans' self-image, has often been the stuff of romance—most recently during California's silicon rush, when venture capitalists battled to throw money at entrepreneurs who were creating jobs and building a unique business culture.

But what worked so well then doesn't anymore. Today, the erupting costs and soaring complexity of new technology are haunting America's future. Even giants such as IBM worry about surviving all by their lonesome. Small, innovative companies are being forced to retreat into niches. And manufacturing equities are shunned by many investors who

believe that U.S. industry has forgotten how to compete.

It's time for U.S. industry to try corporate cooperation and risk-sharing. A few companies are doing just that (page 52). Not many as yet, true, but probably enough to ensure that a trend will take root. Exactly what form of industrial structure will emerge from this, laws permitting, remains uncertain. Cooperation characterizes *keiretsu*, the huge multicompany groups in Japan that are anchored by cross-shareholdings. This arrangement certainly fosters long-term management, and it has enjoyed outstanding success for the past two decades. But the *keiretsu* system also seems to stifle creativity, so U.S. executives believe it must be emulated very selectively. Still, with American entrepreneurship and teamwork, hybrid *keiretsu* might be important ingredients in a U.S. revival. Let's make sure the way is clear for those companies who want it to happen.

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ESS WEEK
February 3

BusinessWeek

FEBRUARY 3, 1992

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WANTED: AN ECONOMIC POLICY

President Bush is set to unveil new plans for the economy. But America needs a more far-reaching strategy.

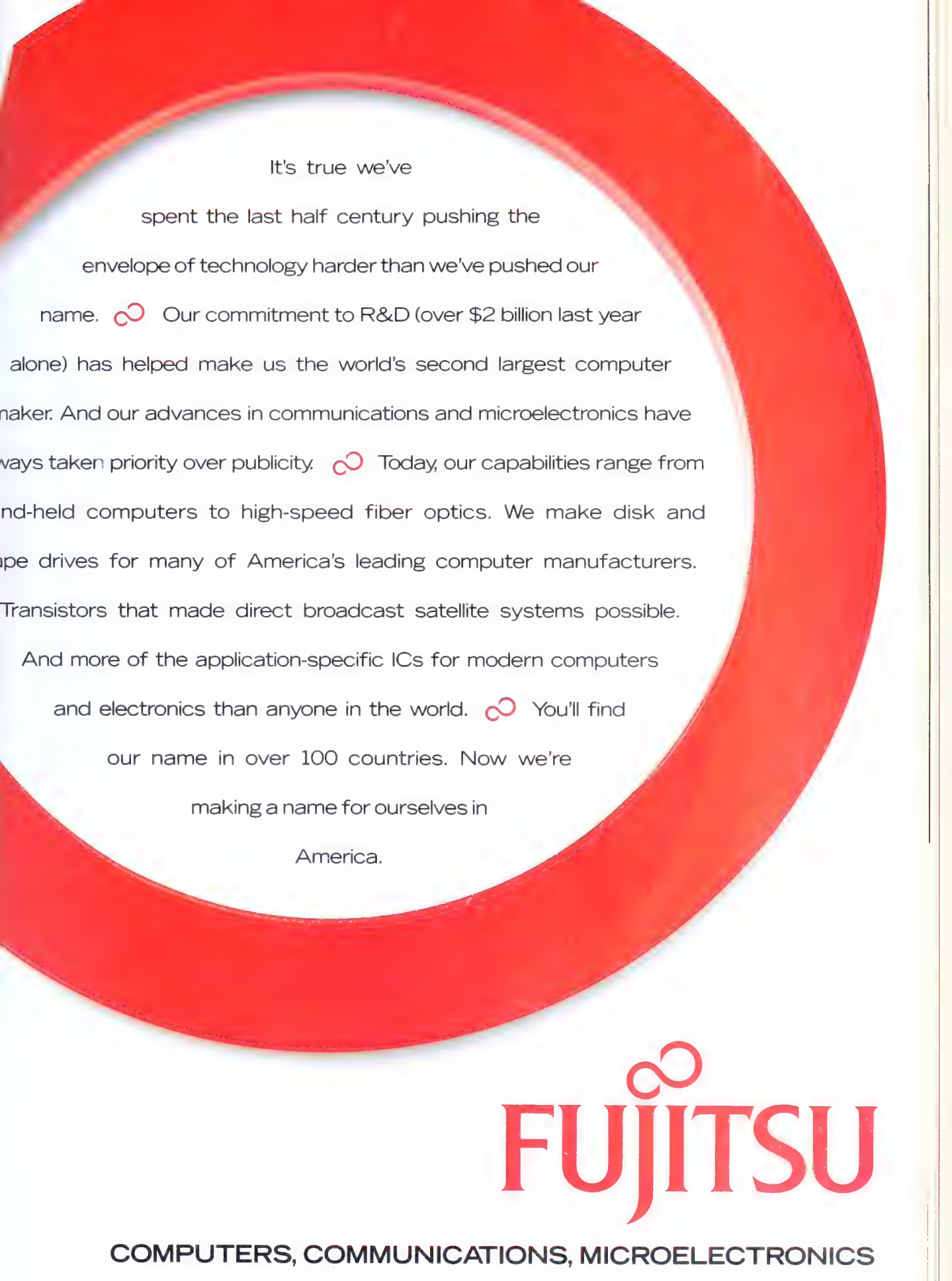
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JOBLESS IN CHICAGO: THE DEMOCRATS WILL MAKE THE ECONOMY THE MARKER AGAINST WHICH THE BUSH PRESIDENCY MUST BE JUDGED

Cover Story

20 WANTED: AN ECONOMIC POLICY

George Bush can seize his historic opportunity to address America's basic problems—productivity, education, health care—or he can propose a basketful of quick fixes that will please their various constituencies but have little long-term impact. The ever-cautious President seems to be leaning toward the quick fix. His go-slow approach to confronting the nation's fundamental problems may serve him well—or come back to haunt him and the economy

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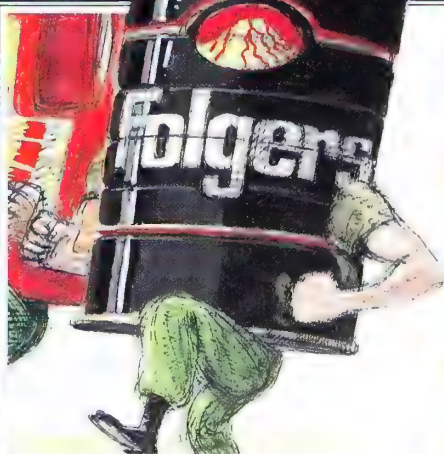
Low inflation may spur recovery

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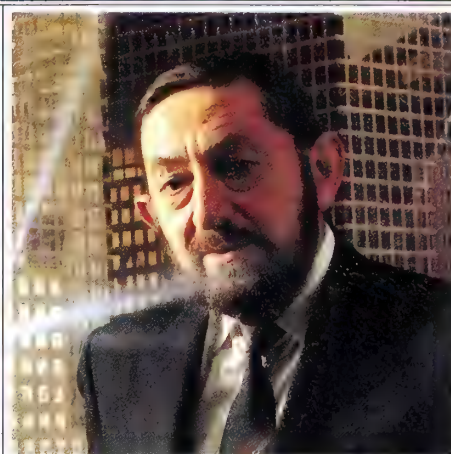
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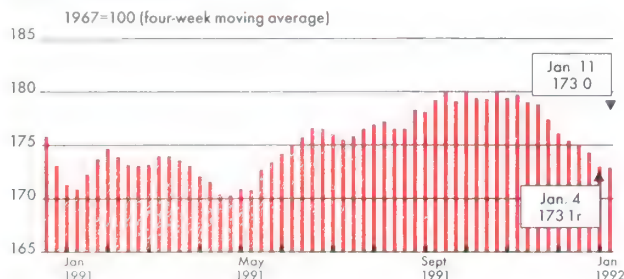
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How to prime the economic pump
Disinfecting a \$2 trillion market

BusinessWeek Index

PRODUCTION

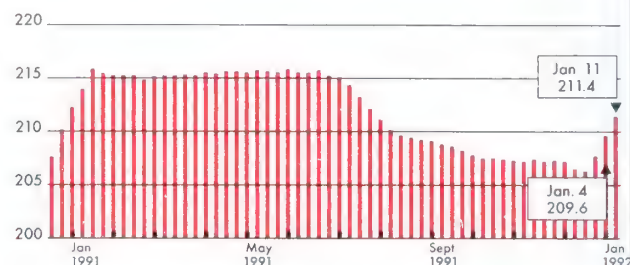
Change from last week: -0.1%
Change from last year: 1.2%



The production index was virtually unchanged during the week ended Jan. 11. On a seasonally adjusted basis, auto output rose sharply, and rail-freight traffic and electric power output increased as well. Truck, steel, coal, and lumber production declined, while data for paper and paperboard were not available for the week. Prior to calculation of the four-week moving average, the index shot up to 175.0, from 170.4 in the previous week, which included the New Year's Day holiday.
BW production index copyright 1992 by McGraw-Hill Inc

LEADING

Change from last week: 0.9%
Change from last year: -1.1%



The leading index increased modestly during the week ended Jan. 11. Lower bond yields and higher stock prices, plus some improvement in the growth of real estate lending, led the gain. However, the number of business failures jumped during the week, and materials prices were little changed. Data for money growth were unavailable. Before calculation of the four-week moving average, the index fell to 212.9, from 214.2 in the previous week.
Leading index copyright 1992 by Center for International Business Cycle Research

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
STEEL (1/18) thous. of net tons	1,737	1,795#	-0.9
AUTOS (1/18) units	103,391	80,071r#	-7.3
TRUCKS (1/18) units	61,040	38,287r#	13.4
ELECTRIC POWER (1/18) millions of kilowatt-hours	59,913	56,097#	5.8
CRUDE-OIL REFINING (1/18) thous. of bbl./day	13,109	13,292#	4.2
COAL (1/11) thous. of net tons	19,070#	15,227	0.3
PAPERBOARD (1/11) thous. of tons	NA#	771.4r	NA
PAPER (1/11) thous. of tons	NA#	676.0r	NA
LUMBER (1/11) millions of ft.	471.8#	268.7	1.6
RAIL FREIGHT (1/11) billions of ton-miles	20.7#	16.7	10.1

Sources: American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Paper Institute, WWPAA, SFPA, Association of American Railroads

FOREIGN EXCHANGE

	Latest week	Week ago	Year ago
JAPANESE YEN (1/22)	123	128	132
GERMAN MARK (1/22)	1.58	1.62	1.49
BRITISH POUND (1/22)	1.81	1.76	1.96
FRENCH FRANC (1/22)	5.40	5.53	5.04
CANADIAN DOLLAR (1/22)	1.15	1.15	1.16
SWISS FRANC (1/22)	1.40	1.44	1.26
MEXICAN PESO (1/22)	3,046	3,048	2,958

Sources: Major New York banks. Currencies expressed in units per U. S. dollar, except for British pound expressed in dollars

PRICES

	Latest week	Week ago	% Change year ago
GOLD (1/22) \$/troy oz.	356.750	355.550	-5.7
STEEL SCRAP (1/21) #1 heavy, \$/ton	89-90.00	93.00	-15.6
FOODSTUFFS (1/20) index, 1967=100	205.0	202.4	-1.6
COPPER (1/18) c./lb.	99.5	99.3	-12.6
ALUMINUM (1/18) c./lb.	53.6	51.5	-22.9
WHEAT (1/18) #2 hard, \$/bu.	4.29	4.17	60.7
COTTON (1/18) strict low middling 1-1/16 in., c./lb.	51.24	53.36	-27.0

Sources: London Wednesday final setting, Chicago market, Commodity Research Bureau, Metals Week, Kansas City market, Memphis market.

LEADING INDICATORS

	Latest week	Week ago	% Change year ago
STOCK PRICES (1/17) S&P 500	417.23	417.20	10.3
CORPORATE BOND YIELD, Aaa (1/17)	8.14%	8.17%	-10.4
INDUSTRIAL MATERIALS PRICES (1/17)	93.3	93.4	-7.2
BUSINESS FAILURES (1/10)	413	262	7.0
REAL ESTATE LOANS (1/8) billions	\$403.2	\$403.1	0.7
MONEY SUPPLY, M2 (1/6) billions	NA	\$3,400.8r	NA
INITIAL CLAIMS, UNEMPLOYMENT (1/4) thous.	NA	403	NA

Sources: Standard & Poor's, Moody's, Journal of Commerce (index: 1980=100), Dun & Bradstreet (failures of large companies), Federal Reserve Board, Labor Dept. CIBCIR seasonally adjusted data on business failures and real estate loans.

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Change year ago
INDUSTRIAL PRODUCTION (Dec.) total index	107.8	108.0r	0.6
CAPACITY UTILIZATION (Dec.)	79.0%	79.3%r	-2.0
CONSUMER PRICE INDEX (Dec.)	137.9	137.8	3.1
REAL GROSS WEEKLY PAY (Dec.)	\$258.01	\$256.10	0.2

Sources: Federal Reserve Board, BLS

MONETARY INDICATORS

	Latest week	Week ago	% Change year ago
MONEY SUPPLY, M1 (1/6)	\$892.4	\$895.9r	8.2
BANKS' BUSINESS LOANS (1/8)	290.3	293.4r	-9.9
FREE RESERVES (1/8)	642	1,092r	-80.7
NONFINANCIAL COMMERCIAL PAPER (1/8)	131.1	124.5	-8.6

Sources: Federal Reserve Board (in billions, except for free reserves, which are expressed for a two-week period in millions).

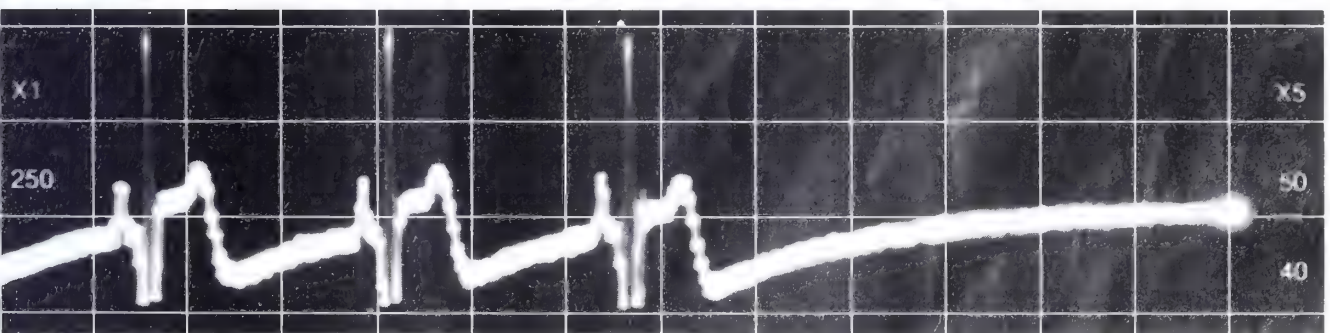
MONEY MARKET RATES

	Latest week	Week ago	Year ago
FEDERAL FUNDS (1/21)	4.11%	3.95%	6.88%
PRIME (1/22)	6.50	6.50	9.50
COMMERCIAL PAPER 3-MONTH (1/21)	4.06	4.07	6.92
CERTIFICATES OF DEPOSIT 3-MONTH (1/22)	4.03	4.13	6.94
EURODOLLAR 3-MONTH (1/18)	4.10	3.96	7.41

Sources: Federal Reserve Board, First Boston

#Raw data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment.
1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

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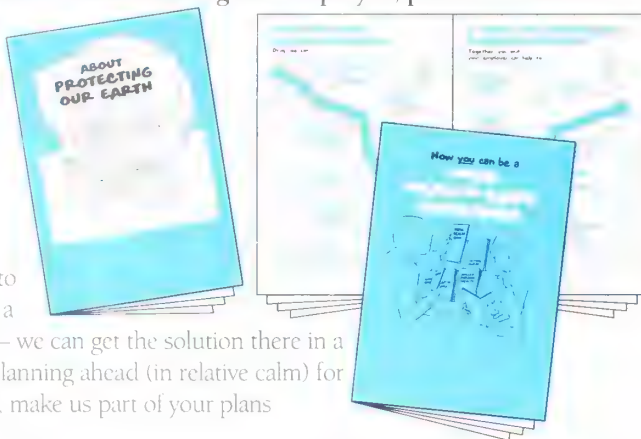
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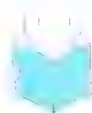
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THE NIGHTLY BUSINESS REPORT



WHERE BEST TO INVEST IN '92 ?

THE ANALYSTS' PICKS

WHERE ARE THEY? WHERE ARE THEY HEADED?

Semiconductors	February 3	Airlines	February 17
Regional Banks	February 5	Tobacco	February 19
Health Care	February 10	Utilities	February 24
Pollution Control	February 12	Pharmaceuticals	February 26

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interacting with other children in the school district so that lasting roots can be nurtured and the transition to kindergarten smoothed. Deepened, strengthened, bonded society roots can only bring positive results as a whole.

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1 FEELING SO BAD

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U.S. values of stocks to rise at the end of 2001-02, particularly for the oil and gas sector, to help to boost the energy sector in some cases. It is strengthening prices and momentum in several related sectors. Deep discounts of oilfield equipment production in mid-2001 as of early January also helped boost energy and larger oil and gas-related markets.

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iper is not a bad car for a self-interested, elitist fantasy. But when a Japanese company puts out a breakthrough car, such as Mazda's Miata, its competitors perfect it, mass-produce it, and accordingly, and positions it in the product line to record sales. Volkswagen is losing millions a day on the Beetle. In the meantime, it continues to pump out flawed and boring cars it sells to the masses to buy. No wonder Volkswagen can buy so many Japanese cars.

Tnea Grigsoy

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THE END OF HISTORY AND THE LAST MAN

By Francis Fukuyama

Free Press • 418pp • \$24.95

A STEAMROLLER CALLED DEMOCRACY

There's an editor at this magazine whose wont, on seeing some news item flash on the wires, is to ask reflexively: "What does it all mean?"

These days, that's a question many people, not just journalists, are asking about world events. In the past three years or so, the Berlin Wall came down, Eastern Europe shrugged off communism, East and West Germany became one, and the Soviet Union and Yugoslavia became many. For a generation that grew up knowing only a bipolar world in which the U.S. and the Soviet Union were sworn enemies, this upheaval is both unsettling and exhilarating. Clearly, long-held notions must be discarded. But why did these events transpire? What's next? What does it all mean?

Amazingly, a few brave authors have already proffered answers. In *The End of History and the Last Man*, Francis Fukuyama expands on an article that created a remarkable stir when it ran in the quarterly *The National Interest* in 1989. Fukuyama contends that the world is progressing inexorably toward the adoption of democratic principles. Thus, by "the end of history" he means the end of all sorts of ideological conflict. In partial rejoinder, Graham E. Fuller has written *The Democracy Trap*.

Fukuyama, formerly with the State Dept.'s policy planning staff and now a consultant to RAND Corp., has written by far the more ambitious book. Exhaustively researched and carefully argued, *The End of History* tries to construct an all-encompassing framework for comprehending recent events. Evolution toward democracy is inevitable, Fukuyama argues, because that system, more than any other, satisfies individuals' material needs and desire for self-expression. But as more and more peoples are won over to democracy and the free-market system that usually accompanies it, he predicts, humanity's evolution might culminate in a "last man," self-satisfied and complacent because all his needs appear to have been met.

Yet Fukuyama goes on to observe that some people are driven by a motive more deep-seated than physical comfort. That motive he dubs *thymos*, Greek for spiritedness. For Fukuyama, *thymos* means the need for recognition, glory, and prestige, "the battle to death" by

THE DEMOCRACY TRAP: PERILS OF THE POST-COLD WAR WORLD

By Graham E. Fuller

Dutton • 285pp • \$20

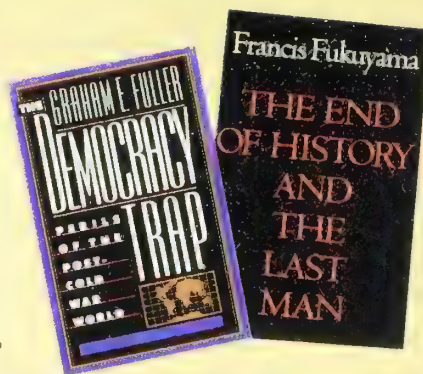
which men attempt to set themselves apart from and above others. Medieval jousts, duels, and holy wars come to mind. (Clearly, Fukuyama intends "man" to stand for humanity, but his vision seems essentially masculine.)

Fukuyama's argument is interesting but difficult to accept. The author draws heavily on such philosophers as Hegel and Nietzsche, as well as from the writings of a less well-known Russo-French scholar of the mid-20th century, Alexandre Kojève, whom he sets up as a brilliant theorist of democracy. But Fu-

battle, as Fukuyama suggests? If so, wouldn't armed combat spell the end of the end of history?

For all its flaws, *The End of History and the Last Man* is provocative reading. *The Democracy Trap*, on the other hand, is a disappointment. Fuller, once a long-range forecaster at the CIA and currently a political analyst, also with RAND, starts with a good premise. There are perils inherent in democracy, he writes—conflicts between individual wants and community needs, for example—that should prevent us from cheering its "triumph" too loudly. But Fuller's book reads as though he spoke it into a tape recorder. It is littered with gratuitous asides and empty statements such as: "America is a phenomenon about which almost no one can be neutral." A moralistic tone marks his discussion of "the decline of the American family"—which he blames in part on the "growing freedoms and cultural laxities

Is the world moving inexorably toward one ideology? Or is it too soon to trumpet democracy's triumph?



kuyama buries in a footnote the following: "There are certain problems in seeing Kojève himself as a liberal, insofar as he frequently professed an ardent admiration for Stalin and asserted that there was no essential difference between the United States, the Soviet Union, and China of the 1950s." Nonetheless, Fukuyama concludes that "the liberal Kojève [is] more plausible than the Stalinist one."

This is but one example of Fukuyama's tendency to explain away facts or events that get in the way of his argument. Ethnic tensions in the Balkans? Kurdish nationalism? Islamic fundamentalism? No problem, he says: These are simply twists and turns along the path to the end of history. But even if readers buy into this linear view, they are left with the conundrum posed in the book's last section. Will some men, eager to assert themselves, become nostalgic for

of the 1960s 'cultural revolution.'" Further, he attributes far too much importance to democracy's tolerance of such fringe concerns as radical environmentalism. The reader is left hungry for a more thoughtful and dispassionate discussion of democracy's flaws.

One problem is that the very word "democracy" has been used so carelessly in recent months that it has been robbed of meaning. Democratic elections have been held in countries from former Soviet Georgia to Algeria, but are democrats being elected? And what happens to the democratic process when the victors in such elections aren't permitted to lead? Day by day, the new world order is yielding more and more questions, and these books don't have the answers. My own modest conclusion: It's simply too soon to understand what it all means.

BY KAREN PENNAR

Senior Writer Pennar covers economics.



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THE COMMONWEALTH'S BEST CHANCE IS COMPETITION

BY GARY S. BECKER



Free movement of goods, capital, and people among the republics of the former Soviet Union would encourage each one to adopt the most effective political and economic policies

Competition among the member republics of the Commonwealth of Independent States offers a great opportunity for economic progress and political freedom. The most significant and lasting gain from the collapse of the Soviet Union could be competition among different policies and institutions that were not possible before. The competition would exert pressure on each republic to put its house in order as it tries to attract domestic and foreign investment and the allegiance of its citizens.

Just as consumers benefit when companies vie for their patronage with different goods and services, so too would the various ethnic groups in the CIS be better off if they could choose among different governments, each with its own policies and programs.

Competition among the republics' economic and political policies would be especially effective, of course, if the CIS allowed free movement of goods, capital, and people among member states. If that were possible, and if economic growth were lagging in parts of the CIS—possibly because of foolish policies—both people and capital would leave for better conditions in economically successful republics. Migration would also be unusually heavy out of states that oppressively restricted individual liberty: Thus, freedom to migrate would help protect minorities against the most outrageous forms of discrimination. For example, if Azerbaijan discriminated against its Armenian minority, some of them might well migrate to Armenia or another republic.

OPEN BORDERS? It was no accident that essentially all communist countries sharply limited the right to emigrate, especially for younger skilled workers. These governments were well aware of the power exercised by those who can vote with their feet. When it first became possible to leave the German Democratic Republic less than two years ago, a mad exodus by tens of thousands of young people precipitated the government's collapse.

Although the republics may agree, however, on free trade in goods and capital, free migration of people throughout the Commonwealth and coordination of many other policies is not likely in the near future. The republics fear domination by the Russians, and there is intense hostility among other ethnic groups. Such frictions were exacerbated by Stalinist policies of moving large populations forcibly in and out of different regions. But the example of growing cooperation among formerly unfriendly countries of Western Europe suggests that cooperation among the former Soviet republics may grow over time.

Some economists point to the European

Community's agreement to have a common currency by the end of the century and lament that ethnic rivalries and fears will prevent the Commonwealth from replacing the old ruble with a new ruble. But I believe that a common money should be allowed to evolve and should not be imposed at the beginning. Supporters of a uniform currency usually assume that it will be well-managed, with a low rate of inflation and with easy convertibility into hard currencies. But what if it were badly controlled, like the Argentinean peso or the ruble in recent years? The fact is that poor management of money has been far more common than good management.

MINTING IT. It is better to let republics issue their own currencies, if they want to, and reap the benefits of competition among different currencies. Thus, if the Russian ruble were strong and the Ukrainian money were not, companies and households in Ukraine would naturally use Russian rubles in some of their transactions.

Flight from their money puts pressure on governments to behave more responsibly, while the advantages of having a currency widely used encourage more sensible monetary policies. A republic might even control the amount of its money by linking it to hard currencies, the way the Hong Kong dollar has been pegged to the U.S. dollar.

Obviously, competition among the republics in nuclear weapons would not be a good thing. It is essential that the new Commonwealth establish controls and safeguards over the thousands of nuclear warheads in its territory. The West would like to see many of these destroyed and could offer disarmament and other inducements to the republics with nuclear weapons.

It may seem unlikely that small republics such as Moldova and Armenia, can compete effectively in the world economy if the CIS does not guarantee free trade among its members. But countries with relatively small populations, often dominated by a single ethnic group and with their own languages and currencies have done well on average. Their per capita incomes have grown faster than average in recent decades. International trade and flows of capital give producers and consumers in small economies access to large markets and products from elsewhere.

The economic viability of small-fry nations helps explain why Yugoslavia and other countries with strong ethnic rivalries will also dissolve into loose confederacies or completely separate nations. They too will gain from competition among different states, as people choose with their wallets and their feet.

GARY S. BECKER IS UNIVERSITY PROFESSOR OF ECONOMICS AND SOCIOLOGY AT THE UNIVERSITY OF CHICAGO



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BY MICHAEL J. MANDEL

LOWER RATES SEND A FLOOD OF CASH INTO THE ECONOMY...

It's bonanza time for borrowers. Although the economy is still stalled, lower rates are starting to put big bucks into the pockets of homeowners, businesses, and even governments. Calculations by **BUSINESS WEEK** and others show that the current level of interest rates could add about \$27 billion to the economy in 1992 (table). That's more money than most tax-cutting schemes now talked about in Washington.

The biggest winners from lower rates, of course, are homeowners. Since last summer, the interest rate on one-year Treasury bills, to which many adjustable-rate mortgages are pegged, has fallen by two percentage points. Fixed-

fall in interest rates since last summer could save corporations \$10 billion, which could give a nice boost to profits.

Even deficit-ridden governments, big borrowers in the 1980s, are cashing in on the fall in interest rates. Kathleen Stephansen, an economist at Donaldson, Lufkin & Jenrette Securities Corp., estimates that federal debt service will be \$7 billion lower in 1992 because of falling rates. State and local governments, too, will benefit, though lower credit ratings will limit the gains.

All of this money doesn't just fall out of the sky. Lower rates do help stimulate economic activity. But at least initially, much of the gain to borrowers is being financed by smaller interest payments to foreign investors and U.S. households with savings. The loss of interest income to savers will total about \$15 billion in 1992. Hardest hit are people with fat savings accounts but no mortgages—the elderly, in most cases. In effect, the interest-rate cuts are redistributing income from the old to the middle-aged and young.

Many economists argue that this transfer is beneficial to the economy, at least in the short run. "The people who have the adjustable-rate debt are more on the edge in terms of their finances," says Mark Zandi of Regional Financial Associates Inc. That means they are more likely to spend their gains from lower rates—and that could help get the economy going again.

With Kathleen Madigan in New York

WHAT LOWER RATES ADD TO THE ECONOMY

Effects in 1992*

Billions of dollars

CONSUMER RATES

MORTGAGE COST	\$22
OTHER DEBT	2
Credit cards, home equity and auto loans	
INTEREST INCOME	-15
Certificates of deposit and other savings	

BUSINESS BORROWING COSTS

CORPORATE DEBT	10
----------------	----

GOVERNMENT BORROWING COSTS

FEDERAL	7
STATE AND LOCAL	1
TOTAL	\$27

* ASSUMING INTEREST RATES STAY AT CURRENT LEVELS

DATA: MORTGAGE BANKERS ASSN.; DONALDSON, LUFKIN & JENRETTE; BW

rate mortgages, too, have fallen, leading to a tidal wave of refinancings. Borrowers could see their housing costs fall by some \$22 billion in 1992, estimates Richard W. Peach, an economist at the Mortgage Bankers Assn. Other estimates for the potential cost savings range as high as \$40 billion.

Companies stand to gain plenty, too. Right now, corporate bond rates are at their lowest point in 14 years, leading to a record pace of bond issues. Other companies are refinancing old debt. John Lonski, senior economist at Moody's Investors Services Inc., calculates that at current interest rates, \$92 billion of investment-grade bonds are worth refinancing. Based on past experience, the

...BUT THE ELDERLY ARE GETTING WALLOPED TWICE

Even as senior citizens watch the rates paid on their savings accounts go down, they face another whammy: a higher rate of inflation than other Americans. Medical costs are the big culprit. People over 65 spend 13% of their income on medical care, compared to less than 5% for households headed by people aged 35-44, according to a recent Bureau of Labor Statistics survey of consumer spending patterns. With health care inflation still running at 7.5% annually, that difference carries a big impact. Over the past three months, the inflation rate for someone over 65 was 3.7%, compared to 3.2% for the U.S. overall. A person over 75 years old is seeing an inflation rate of almost 4% annually, which makes the real interest rate on savings accounts close to zero.

The elderly are not the only ones facing higher-than-average inflation rates. Also hit hard are low-income and self-

employed households, who pay a disproportionately high share of their incomes for health care. Who has the lowest inflation rate? High-income earners, who are more likely to be employed at jobs with good health care plans.

THE RECESSION HAS AMERICANS ON THE MOVE

Moving vans are taking to the road again. The latest numbers from the Census Bureau show that on a net basis, about 550,000 people moved out of the Northeast and the Midwest from April, 1990, to July, 1991. The bulk of the losses came from recession-stricken states such as Massachusetts and New York, but the moderate downturn in the Midwest didn't stop people from leaving there as well. Main destinations: Florida, Nevada, and Washington state.

However, the Northern states are still a magnet for some groups. Over the same period, the Northeast and the Midwest were garnering a healthy 40% of immigrants from overseas, helping compensate for the domestic outflow. If these trends continue, the economic vitality of the Northeast and Midwest will become even more dependent on the health of their immigrant communities.

WHY THE SLUMP IN HOUSING LED TO A BOOM IN SAVINGS

Personal savings staged a dramatic collapse in the 1980s. From 1981 to 1989, the savings rate, as a percentage of disposable personal income, fell from 8.8% to only 4.4%. Now, the latest numbers show a modest upturn in personal savings. Indeed, even though interest paid on savings has plunged, the savings rate over the past six months has averaged 5.2%, its highest level since 1986.

Does that mean Americans have suddenly rediscovered the virtues of thrift? Not necessarily. According to a recent analysis by economists Alicia H. Munnell and Leah M. Cook of the Federal Reserve Bank of Boston, much of the drop in savings in the 1980s was a response to the housing boom of the late 1960s and 1970s. As home values soared, pleased homeowners had less reason to put away money in the bank. Now, with housing prices stagnating across the country, consumers can't expect that to happen again. So unless the housing market unexpectedly recovers, the savings rate may continue its upward climb.

WHILE INFLATION SLEEPS, RECOVERY HAS A FIGHTING CHANCE

What could go right in 1992? Inflation could easily be the most pleasant surprise. Except for a few pockets of resistance, price pressures are virtually nonexistent—and likely to remain so. Low inflation is a cornerstone of the recovery process. It gives the Federal Reserve more freedom to push short-term interest rates as low as needed. It keeps upward pressure off long-term rates that are crucial to housing demand and to the reliquification of business and consumer balance sheets. And low inflation boosts the purchasing power of household incomes.

Right now, economists expect the consumer price index to rise by about 3.5% during 1992. But given the economy's poor start in the New Year, along with prospects for a less-than-robust recovery, the CPI stands a good chance of coming in below that projection.



Going into 1992, service-sector restructuring is holding down the growth of service wages. That's a long-term phenomenon that will keep a lid on the growth of service prices (chart). And plenty of unused production capacity is keeping prices of goods in line. Although exports continue to be a plus for manufacturing, the poor outlook for domestic de-

mand this winter means that even more capacity is likely to stand idle in coming months.

Oil is the wild card in the inflation outlook. OPEC's efforts to stem the recent \$5-a-barrel drop in oil prices since November got a lift on Jan. 21 from Saudi Arabia, which voluntarily cut its production by 100,000 barrels a day. But with most major economies beset by recession or near-recession, weak world demand for oil will require sizable cutbacks to keep prices from sliding further. By mid-January, U.S. gasoline prices had fallen to where they were in July, 1990, before the Persian Gulf crisis.

PRICE HIKES ARE SHRINKING

The latest report on consumer prices looks favorable. The CPI closed out 1991 with a modest gain of 0.3%. Even excluding the volatile food and energy sectors, which can distort the underlying trend, prices were also up 0.3%. For the year, the CPI rose 3.1%. That was down from 6.2% in 1990, and it was the slowest rate since 1986. Oil prices skewed those results, however. Because of the gulf crisis, energy prices had surged 18.1% in 1990 and then dropped 7.4% in 1991. Still, leaving out energy

and food, the core rate of inflation came down by nearly a percentage point last year, to 4.4% from 5.2% in 1990.

That fundamental improvement should continue in 1992. In fact, during the final three months of last year, core inflation slowed to an annual rate of 3.1%. That was the best performance in any quarter in nine years—and an indication of how rapidly price pressures are easing.

The best thing the inflation outlook has going for it right now is a sharp deceleration in service prices, which had been a real problem area until about a year ago. Excluding energy, service inflation had hit 6.5% in early 1991, but by yearend, it had fallen to only 4.6%.

Prices of medical, educational, and personal services continue to rise rapidly, but the pace is slowing even in some of the toughest sectors. Prices of medical services, for example, rose 8% last year, but that's down from nearly 10% a year ago.

A bit surprisingly, goods inflation—excluding energy and food—has actually accelerated during the past year. Goods prices rose 4% in 1991, compared with 3.3% during 1990.

Medicine and education are problems here as well, but faster price growth in other areas, such as tobacco and alcoholic beverages, is a temporary result of tax hikes last year that will not be repeated this year.

INDUSTRY WRESTLES WITH WEAK DEMAND

To be sure, the outlook for goods inflation is bright. A chief reason is the depressed state of manufacturing and little prospect that consumer demand for goods will firm up anytime soon. Even if spending begins to pick up in the spring, factories are already operating at such low levels of capacity that their pricing power will remain weak through much of the year.

At the end of 1991, industrial production was falling. Output at factories, mines, and utilities dropped 0.2% in December—the third consecutive decline. A drop in utility output in December, the result of milder-than-normal weather, accounted for much of that month's weakness.

Manufacturing output rose only a scant 0.1% in December after a 0.3% dip in November and no growth in October (chart). Planned cutbacks by the auto industry in the current quarter do not bode well for factory production in coming months.

Output of construction supplies, up 0.4% in December and 0.5% in November, showed some strength. That's a

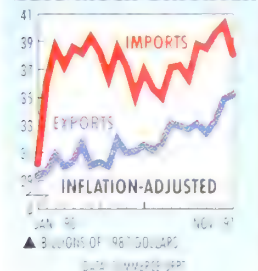


Business Outlook

sign that the modest upturn in homebuilding is one of the economy's few pluses. In December, housing starts rose 2.5%, to a 1.1 million annual rate. But for all of 1991, housing suffered its worst year in the postwar era.

Although sick domestic demand is the bane of the industrial sector, many factories can count on some growth in spending from foreign buyers. The merchandise trade deficit shrank by nearly half in November, to \$3.6 billion from \$6.3 billion in October.

THE TRADE PICTURE GETS MUCH BRIGHTER



After adjusting for inflation, exports are closing their gap with imports (chart). The already reported Japanese trade data suggest that the U.S. trade deficit likely widened again in December. But even so, the foreign-trade sector could have added at least 1% to real gross domestic product growth last quarter, at an annual rate.

Given the weakness in domestic spending, that addition could mean the difference between positive or negative growth in the fourth quarter.

Exports rose to a record \$37.5 billion in November, 0.9% above the previous high set in October. The best performers have been food and capital goods, where U.S. trade is firmly in surplus.

Developing countries have become our fastest-growing market, in part because many industrialized economies are slumping. U.S. exports to industrialized nations rose 3.4% in the first 11 months of 1991, compared with the same period of 1990. For developed countries, the pace was 14.2%. The biggest leap seems to be in Latin America. Exports to Mexico and Brazil are up 17%, while shipments to Venezuela have jumped by 54.4%.

Slack U.S. demand, however, has cut into the growth of imports, which fell a sharp 5.5% in November. Imports of nonauto consumer items fell 4.1% in November

after posting big gains in the previous two months. Many of those goods were probably shipped in for the Christmas selling season. They may well have ended up in inventory, though, since retail sales were so poor in November and December. That means consumer imports should be weak in the next few months.

FACTORIES ARE WAY BELOW CAPACITY

With domestic demand flagging, an increasing amount of U.S. production capacity is standing idle. The operating rate for all industry fell 0.3 percentage points in December, to 79%, and the rate in manufacturing slipped a tenth of a point, to a low 78.1%.

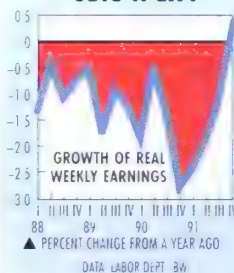
Capacity utilization is likely to dip even more in coming months, and it will be some time before operating rates come close to the 83% level that is associated with conditions that allow upward pressure on goods prices.

The favorable impact of low inflation on the buying power of consumers' incomes is already showing up in the data. In December, the real weekly earnings of production workers—adjusted for inflation—rose 0.7%. And from the fourth quarter of 1990 to the fourth quarter of 1991, real earnings increased, if only by a slim amount (chart).

Still, it was the first yearly gain since 1986. Weekly earnings before inflation have risen between 3.1% and 3.5% in each of the past five years, but because of last year's low inflation, wage earners saw their purchasing power increase.

Another good year for inflation in 1992 could lift real earnings for the second consecutive year—which hasn't happened in more than a decade. When the job market turns around, more buying power will give the economy a fighting chance at a consumer-led recovery.

PURCHASING POWER GETS A LIFT



THE WEEK AHEAD

EMPLOYMENT COSTS

Friday, Jan. 28, 8:30 a.m.

Labor costs at nonfarm businesses are expected to have risen by about 1% in the fourth quarter, according to economists at the U.S. Bureau of Economic Analysis of McGraw-Hill Inc. That would be a slight decrease from the 1.2% advance in the third quarter, reflecting moderation in wages as continued slackness in labor demand squeezes pay raises.

GROSS DOMESTIC PRODUCT

Wednesday, Jan. 29, 8:30 a.m.

The fourth-quarter economy probably experienced no growth, say the MMS economists. Falling final domestic demand offset gains on the foreign-trade

front and some buildup of inventories. In the third quarter, real gross domestic product rose at a 1.8% annual rate. Inflation, as measured by the GDP price deflator, likely increased at a 3% annual rate last quarter, up from 2.1% in the third.

DURABLE GOODS ORDERS

Thursday, Jan. 30, 8:30 a.m.

New orders for durable goods probably fell by about 1% in December, reversing the 1% gain posted in November. The expected drop is another sign of the weakening industrial sector.

PERSONAL INCOME

Thursday, Jan. 30, 10 a.m.

Personal income likely rose 0.5% in December after falling 0.1% in November.

Earnings were buoyed by a longer workweek and the extension of some unemployment benefits. Consumer spending was probably unchanged last month after rising 0.7% in November.

LEADING INDICATORS

Friday, Jan. 31, 8:30 a.m.

The MMS consensus is that the government's composite index of leading indicators was little changed in December. In November, the index fell 0.3%.

NEW SINGLE-FAMILY HOME SALES

Friday, Jan. 31, 10 a.m.

New homes probably sold at an annual rate of 535,000 in December, say the MMS economists. In November, the annual rate was 520,000.



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THE QUICK FIX

PRESIDENT BUSH IS SETTING A CAUTIOUS ECONOMIC COURSE, WITH FEW BOLD LONG-TERM PLANS

BUSH'S FADING APPEAL

AMERICANS WHO APPROVE OF THE WAY THE PRESIDENT IS HANDLING HIS JOB

20

100 -

75 -

50 -

25 -

0

JAN. 6, '91

JAN. 19, '91

his was to be the State of the Union address that Presidents dream about. The Jan. 28 speech to Congress and the nation would be a curtain call for George Bush's first three years in office—a rousing send-off for his reelection campaign. The President would throw the light on his new world order: The Somenace vanquished. Saddam Hussein down to size. America standing tall. Bush would draw an unmistakable contrast between himself and the Democrats who opposed the Reagan defense buildup and the war against Iraq.

The economic state of the nation was to be little more than a footnote. A steady recovery would have left the shallow 1991 recession a fading memory. Even the vexing budget deficit would be coming under control.

ASKING. Funny the tricks history plays. Moscow's emerging democracy is a million miles away, far from the sights of most Americans. Saddam Hussein is still in power, hanging on to his nuclear weapons capability. And then there's the economy...

Instead of simply basking in the apogee of a grateful nation, Bush now has to convince impatient voters that he can turn the economy around (page 25).

Brentwood (N.H.) florist John Wuehrich, a die-hard Republican: "I think the State of the Union is going to be the first if Bush comes up with anything new and dramatic. At now, I think it's the same rhetoric."

Bush must feel like a CEO whose grand plans for expansion have been wrecked by the recession. He needs to think about the long-term future of the business, but all his attention is consumed by keeping the company going for the next year. "There are structural problems that we could deal with," says Lehman Brothers Chief Economist Robert J. Barbera. "But is it pragmatic to make adjustments for the long term when you're at the trough of a recession and the start of an election year?"

It's not if you are George Bush, whose mantra for '92 is shaping up as fiscal discipline and caution. Says a senior Adminis-

tration official: "The economy will come back. Housewrecking the budget would tell the rest of the world that we cannot manage our affairs in a sensible fashion. The markets don't put up with this stuff."

Bush is feeling great pressure to balance the political need for a highly visible quick fix with policies that focus on what really matters to the U.S. economy—increasing productivity for long-term growth. Says Senator Pete V. Domenici (R-N.M.), the senior Republican on the Senate Budget Committee: "The President has to show the American people that he's got policies that can deal with the long term as well as the short term."

The White House is well aware of the need for such a package. But fatigue and sharp divisions among his top aides have made it tough for Bush to act boldly (page 60). Privately, his senior aides agonize over the difficulty of getting action on the critical issues of education, investment, and trade in the highly charged climate of an election year. Council of Economic Advisers Chairman Michael J. Boskin concedes that without fundamental, productivity-enhancing changes, the U.S. economy will be lucky to grow by even 2.5% a year over the long run.

Boskin says the Administration is aiming at three goals at once: getting the

economy growing, dealing with a "major long-run productivity problem," and addressing structural imbalances, including the huge increase in household debt over the past decade and the need to convert to a post-cold-war economy.

Bush may recognize the problem, but he's unlikely to take the bold steps needed to do something about it. His speech to Congress is likely to include plenty of rhetoric about long-term growth. He'll talk about the importance of research and development, increased national saving, business investment, education, and health care reform (table). But barring some stunning surprise, he'll offer few solutions. "My biggest fear," says one Administration insider, "is that people will think we're not doing enough, that we're being too cautious about the future."

The President will talk about using the same skills that won the Persian Gulf war to keep the U.S. economy the strongest in the world. He previewed the message in a recent political tour of New Hampshire: "I'd like to take the same kind of energy and leadership that we had in Desert Storm and use it to help the working men and women in this country."

WEAK SPOTS. For Bush's sake, whatever he tries had better work. Democrats, both those in Congress and the party's Presidential hopefuls, have shifted the political debate away from Bush's strong suit of foreign policy onto such issues as middle-class tax relief, health care, and government investment in human capital, where the President is weakest. Washington, says House Speaker Thomas Foley (D-Wash.), should take steps that "would help both in long-term economic growth and in the short-term confidence of the country."

The Democrats have sharpened the focus on short-term performance by making the economy the marker against which the entire Bush Presidency should be judged. "The single greatest problem is the recession," says Senate Majority Leader George J. Mitchell (D-Me.). "We simply have to take action to lift this economy out of recession."

Bush will respond in both the speech and his fiscal 1993 budget, due out on Jan. 29. But his message will be complex and will interweave several themes: Get the economy back on its feet, but prepare the ground for long-term growth. Real estate will lead the U.S. out of recession, so bolster eroding asset values and help first-time

WANTED AN ECONOMIC POLICY

THE BUSH GROWTH PLAN

TAXES Relief for the middle class, especially families with children. Tax breaks for capital gains, capital investment, first-time home buyers. Expansion of individual retirement accounts

DEFENSE Further cuts in spending for both operations and weapons procurement. Deep cuts in strategic weapons, modest troop reductions. Biggest budget impact remains several years off

HEALTH CARE A "market-oriented" approach. Tax credits for low-income people, deductions to help the middle class. The wealthy may be taxed on employer-sponsored benefits

REGULATION A 90-day freeze on new federal rules that increase cost of doing business, such as pollution and worker-safety regulations. Possible new push to expand banking powers

THE BUDGET Maintain at least the outlines of 1990 budget agreement. To avoid swelling the deficit, use accounting changes and entitlement cuts to finance tax reductions

DATA: BW



★ THOUSANDS OF UNEMPLOYED WORKERS GATHERED IN THE COLD ON A NAVY PIER IN CHICAGO TO APPLY FOR JOBS IN A SHERATON HOTEL

home buyers. Target more resources to families with children. Increase long-term savings and investment.

The trouble is that the President, for whom caution and compromise are watchwords, has put together an economic agenda that tries to be all things to all people. But it will satisfy no one. "Conceptually, it looks pretty good," says Representative Vin Weber (R-Minn.), a leader of House conservatives. "But it's not aggressive enough. It says they really don't believe their package will do anything to spur the economy."

MANY GOODIES. Bush's bow toward the quick fix will include a promise of middle-income tax cuts and some new real estate tax breaks. Both are tremendously popular on the Hill. Neither, Bush aides privately admit, will do much to spur growth. Nonetheless, Bush's recovery plan will include an increase in the personal exemption, a new \$5,000 tax credit for first-time home buyers, and a proposal to restore the ability of developers and some others to write off real estate losses against real estate income.

Savers would enjoy liberal new rules for individual retirement accounts, investors would get a capital-gains rate cut, and business would enjoy faster write-offs of equipment and a permanent credit for research and development costs. Beyond taxes, Bush will temporarily freeze government regulations that add costs to business. He'll urge establishment of joint government and business

research ventures for biotechnology and development of high-tech materials. And he will again propose major changes in the banking laws. Finally, Bush will suggest reforms in job training programs as well as some new money for Head Start, the popular preschool program.

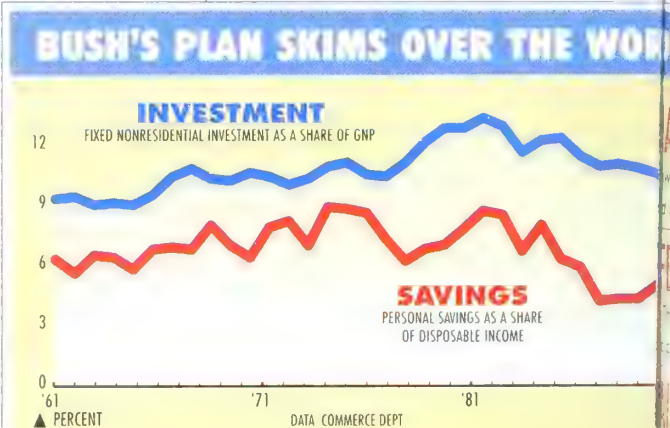
Bush will promise to do it all within the restraints of the 1990 budget agreement. His budget package will include more than a bit of accounting gimmickry—what budget in the past decade hasn't?—but it will mostly keep within the framework of the budget deal. That means very little net fiscal stimulus, perhaps \$10 billion this year.

Will Bush's package do the job, either in the long run or the short term? Can it, as he promises, get the economy moving? And most important, will it set the table for the productivity growth the U.S. needs to remain competitive?

The answer, sadly, is probably not. Bush must steer

through a mine field of conflicting choices. He has to increase consumption to jump-start the economy today, yet boost savings for the future. He must use subsidies to stimulate private investment, while keeping government borrowing under control. And he must find a way to slash Pentagon spending while minimizing economic dislocation.

This struggle will be reflected



CAPITAL FORMATION Bush will stress saving and investment, but his proposals will be modest. He should recommend broad reform of the tax treatment of capital investment, including allowing business to deduct the full cost of new equipment in the first year. A plan to expand individual retirement accounts may increase private savings, but at the cost of big new federal deficits.

throughout his economic plan. While Bush is still fleshing out the details, the package will be anchored by a modest reshuffling of the tax burden. Because he wants to maintain some budget discipline, he must pay for tax relief either by raising other taxes or by cutting spending. The most likely target: cuts in Medicare benefits for wealthy retirees, a political nonstarter. House Ways & Means Committee Chairman Dan Rostenkowski (D-Ill.) has already warned Bush that he'll insist on a surtax on millionaires as a way to pay for at least part of Bush's proposed tax relief.

TEMPTING MORSEL. The most visible tax cut will be an increase in the personal exemption, which is now about \$2,300 a person. The plan is intended to put about \$10 billion a year into taxpayers' pockets, mostly to the benefit of families making \$50,000 to \$100,000. Some of the money will be used to pay down debt. No one knows how much will be used to buy Japanese-made VCRs or German automobiles. Certainly, a few dollars will be spent on U.S. goods. "It's just pro-consumption, antisaving," says William Melton, chief economist at IDS Financial Services Inc. "It might be useful in the short term, but in the long run, it's just more Reaganomics."

And while offering a home buyers' tax credit to boost real estate asset values is a tempting political morsel, it is not without risks. The favored tax treatment of home ownership already makes it among the most heavily subsidized activities in the nation, costing the Treasury more than \$75 billion in revenue last year. In addition, inflated real estate values were the biggest single contributor to the collapse of the savings and loan

industry and the banking crunch, a turn of events that was largely responsible for throwing the economy into recession.

A long debate over the plan could dissipate any quick boost that increased home sales might give the economy. Says Neal M. Soss, chief economist at First Boston Corp.: "It will freeze housing sales, because a seller will demand the extra value that the credit adds to his house, while a buyer won't pay until the credit is a sure thing."

a scheme that would allow companies to take full tax write-offs in the year an investment is made. Such a plan would cost the Treasury tens of billions in the first year, although the cost would be largely washed out over five years. But Bush has ducked that one, too. Instead, he'll propose a modest accounting change that will permit companies to accelerate write-offs under existing depreciation schedules. Administration aides recognize the problems, but the White

THE DEMOCRATS ARE GETTING READY TO POUNCE



★ MITCHELL: "WE SIMPLY HAVE TO TAKE ACTION"



★ FOLEY: CONFIDENCE MUST BE RESTORED



★ ROSTENKOWSKI: A SURTAX ON MILLIONAIRES

Other proposals run into similar problems. Bush will recommend broad new incentives to save through IRAs. While the plan should produce a bit of revenue for the Treasury in the first year, it will cost tens of billions in the future.

WILD SHIFTS. Budget constraints have also sunk hopes that Bush will tackle fundamental questions of how the tax code affects business decisions. There have been two critical issues hanging over investment choices in recent years—tax-favored borrowing and wild shifts in the ability of companies to write off capital investment. The Treasury Dept. staff released a report in early January urging reform of a system that requires both corporations and shareholders to pay tax on company profits paid out as dividends.

Similarly, most economists recognize the need to match depreciation more closely to the cost of capital equipment. Many have endorsed

House is going to take it slow. "In an election year," says one senior Administration official, "you're not going to get sea changes in the tax system."

The defense budget represents another missed chance. Enormous changes in the world have given Bush an extraordinary opportunity to restructure government. The first issue facing Washington policymakers over the next decade is what to do with hundreds of billions of dollars in planned military spending that can be saved in the post-cold-war world. Bush could free money for tax cuts, deficit reduction, or public investment (page 24). But it would take a restructuring of both the military and health care, which threatens to swallow the entire peace dividend. And Bush isn't likely to tackle either issue head-on.

His health care plan (page 26), which probably won't be proposed in detail until February, offers only modest hope for containment of soaring costs. And he will suggest only about \$4 billion in defense cuts for fiscal 1993.

DEFENSE NETTLE. Even hawks such as Domenici and Senator Phil Gramm (R-Tex.) believe that major Pentagon cuts must be made over the next 5 to 10 years. Gramm favors cutting planned military spending by \$74 billion over the next five years. But for now, the Administration is insisting that it will spend billions more than even its own force estimates require. Says defense analyst Gordon Adams: "Something's got to give." Until

ECONOMIC TROUBLE SPOTS

FINANCIAL SYSTEM Business ran up massive debt in the 1980s in part because it favors borrowing over equity financing. The White House urges an end to the double taxation of dividends

DEFENSE Bush will focus on short-term shifts in military spending, while what's needed is a long-term policy that the peace dividend will make possible

HEALTH The White House will offer piecemeal reforms. But sweeping changes are needed to provide affordable health care and reduce costs for business. Without those changes, health care costs will swallow the peace dividend

EDUCATION Bush is proposing more money for Head Start, the preschool program for poor kids, and streamlining of federal vocational education programs. Current efforts fall far short of the major overhaul needed to create a work force that will keep the U.S. competitive

DATA: BW

Bush grasps the defense nettle, he won't have the wherewithal to invest in the future. "The government doesn't have money to give away," says DRI/McGraw-Hill economist David A. Wyss. "Anything you spend on tax cuts has to come from somewhere—and that somewhere is the bond market."

Fear of an adverse reaction in financial markets may keep Bush from acting

boldly. His willingness to resist the temptation to score easy political points may serve him well, especially if recovery already waits in the wings.

But Bush's reluctance to use his power to address the nation's long-term problems may come back to haunt him and the economy. It's easy to say that the political demands of an election year make such policies unrealistic. But Bush

should remember 1988, when he had to struggle to overcome concerns about his ability to see and describe America's future. This year, when nearly 80% of the public worries that the nation is headed the wrong way, Bush's lack of the "vision thing" could cost him his job.

By Howard Gleckman, with Amy Borrus, Paula Dwyer, Douglas A. Harbrecht, and Mike McNamee, in Washington

Commentary/by Howard Gleckman

FOR THE PEACE DIVIDEND, THE 'DEFINING MOMENT' IS NOW

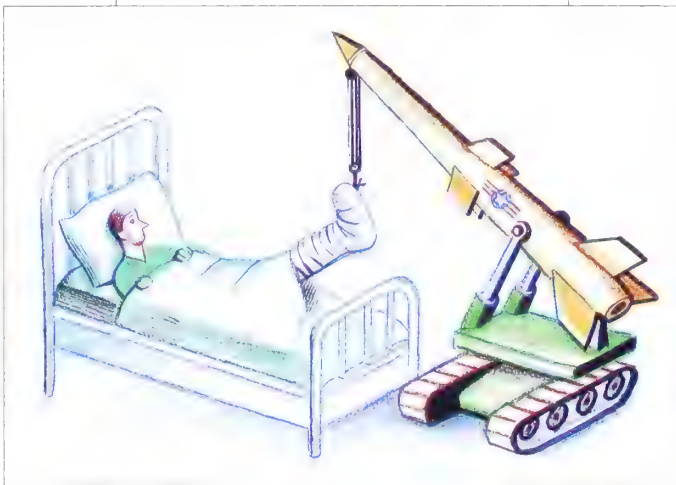
Groan. It's budget time again. That must mean a whole new round of arcane disputes over process and a few feints at fiscal discipline. Nothing, it seems, ever changes. But two events—the collapse of the Soviet Union and out-of-control health care costs—may give real people a stake in the capital's budget decisions. A year ago, General H. Norman Schwarzkopf called the Persian Gulf war a "defining moment." In its way, so is the budget debate.

What do the end of the Soviet empire and health care inflation have in common? To put it simply, the government over the next decade is going to spend \$200 billion to \$300 billion less than it had planned on the military. That leaves Congress and the President with a historic choice: They can give the money back to the people in the form of tax cuts. They can pay off some of the government's \$3 trillion debt. Or they can shift the money to investments intended to increase productivity and competitiveness.

The choice will do much to shape the U.S. economy in the next century. "We have to answer the question about what kind of defense structure we're going to end up with, and we've got to be specific about what we're going to do with the money," says House Budget Committee Chairman Leon E. Panetta (D-Calif.). "The defense savings could all get eaten up quickly."

GUNS OR BAND-AIDS? But whatever choice Congress and the President make will be moot if they don't also craft a comprehensive plan to contain medical costs. Otherwise, every dime cut from the military budget will flow into the bedpan economy.

The numbers are stark. Some of the more ambitious plans on Capitol Hill would pare defense spending by up to \$345 billion over the next decade. But under current law, costs for just the two biggest federal health programs—medicare for the elderly and medicaid for the poor—are projected to rise by \$325 billion in the same period. Looked at another way, Pentagon spending may fall to about 3.5% of gross national product from today's 5.3%. But the government's medicare and medicaid bill will explode to more than 5.2%



from the current 3.2%. By the turn of the century, the government will spend \$500 billion a year for medicare and medicaid—and tens of billions more in smaller health programs and indirect subsidies, such as tax deductions for medical-insurance premiums.

Health care reform, including cost containment and preventive care, will do more than buff up the federal balance sheet. Medical costs, including matching payments for medicaid, are overwhelming state and local governments. Those costs have to be financed with tax hikes, too, and the money that's poured into health won't go to education, transportation, or housing.

But the real challenge belongs to Washington. That's where the big bucks are. And that's where national health and fiscal policy have to be made. So far, there are some signs of awareness on the part of politicians, but precious little action.

MUDDY WATERS. On Capitol Hill, there is a growing sense of the reality of the peace dividend—an acknowledgement that lower defense spending presents an extraordinary long-term opportunity. But on health care inflation, there is only a vague consensus on the need for a far-reaching solution. There is no sense of what shape the answer should take.

The Bush Administration is approaching the problem from just the opposite direction. Bush seems prepared to test the muddied waters of the health care debate (page 26), although the piecemeal plan he's considering falls short of what is needed. But the President appears to be ducking the choices created by the end of the cold war. Instead, he's maintaining the artificial barriers of the 1990 budget agreement, designed to insulate Pentagon spending from domestic economic pressures.

The future of health care and the military are both questions that Washington must answer before it can seize its opportunity. With leadership, hundreds of billions of dollars can be freed up for productive uses. Just think of it: lower taxes, a big bite out the national debt, or cooperative business and government ventures to train workers, encourage research and development, fix crumbling roads. The problems aren't going away. But if Congress and the President don't act soon, the chance to address them will evaporate.

FROM THE HEARTLAND, BLEAK TIDINGS FOR THE GOP

Steelville, Mo., is running out of patience for George Bush

Al's Cafe seems to be straight out of a campaign manager's nostalgic dream. Its narrow entrance, on five-block-long Main Street in Steelville, Mo., is flanked on either side by photos of Miss Harvest Festival of 1991 and Miss Missouri State Fair of 1991 (both local girls who made good). And its cozy, pink decor, down-home cooking, and chatty waitresses forever refilling the coffee cups of men in feed caps and cowboy boots epitomize small-town America.

But judging from round-table discussions at Al's one morning last week, George Bush had better think twice before visiting this hamlet of 1,500. "I've been Republican all my life, but maybe it's time to stop thinking in terms of Republican or Democrat and look for the man who worries most about the economy and our jobs," fumes Terry Brown, union president at the local shoe plant.

MEXICO'S GAIN. Named by the Census Bureau last year as the nation's geographic population center, Steelville is the type of town—small, semirural, white, and traditionally conservative—that Republican strategists have come to depend on in election years. Indeed, the town voted solidly for Bush in 1988. But the economic angst that has gripped both coasts now has spread to these rolling Ozark hills two hours southwest of St. Louis. And folks here doubt that the President's economic plan, to be unveiled on Jan. 28, has a shot at saving many jobs other than his own.

That's how Norma Brakefield sees it. The single mother of two is angry that after Bush pushed for a North American free-trade zone, Zenith Electronics Corp. announced it would stop assembling TVs at its last U.S. assembly plant, 100 miles west of Steelville. "They're moving the jobs to Mexico, where they can pay employees 50¢ an hour," she complains. "Why is Bush working to give our jobs away?"

Now, Brakefield is worried that her plant, a Brown Shoe Co. facility where

wages average \$6.50 an hour, might not last without stiffer restrictions against imports. The 350-worker factory is the town's largest single employer. On Jan. 8, parent Brown Group Inc. announced it will soon close three nearby factories,

axing 1,150 employees. "It's good for us because we'll probably get some new work at our plant," explains one Steelville worker, "but we know we're getting jobs that somebody else just lost." Unemployment in surrounding Crawford County is already high—it stood at 11.2% in November, almost double the statewide rate and 30% higher than the county's jobless rate a year ago.

For all the anxiety, the mood is noth-

from Al's, blames much of the sluggishness in car sales on media-generated gloom. But he admits there is more to it than that. "The problem is they're paying \$18 an hour to make an automobile to sell to the guy making \$4.50 an hour," he says. "The gap is just too wide today."

'BOOTSTRAP APPROACH.' The President might be surprised to learn that the folks at Al's don't want to close that gap with a tax break that merely puts a few extra dollars in pay envelopes by election time. Scoffs insurance agent Bob Hehl: "It's like going to the polling place and handing out \$5 bills." Local merchants and plant workers alike hope Bush will concentrate less on such financial maneuvers as capital-gains tax relief and more on an investment tax credit or new tax incentives for creating jobs.

But Steelville isn't counting on Washington to come to the rescue. "Rather than wait on outsiders," says John T. Britton, whose Britton Bros. funeral home is a block away from Al's, "we've got to use the bootstrap approach." A new food pantry is open several days a month, stocked with free food for locals down on their luck and staffed mainly by volunteers. Civic leaders are develop-

**WANTED
AN ECONOMIC
POLICY**



★ ROUNDTABLE AT AL'S: SENIOR WRITER ELLIS (TOP LEFT) LISTENS TO TOWNSFOLK

ing like the outright despair in many stretches of New Hampshire. "The economy's tough, but we're not down and out here," says Forrest "Ike" Lovan, who runs an antiques shop on Main Street and heads the Chamber of Commerce. Vacationing St. Louisans, who come to canoe or fish, have bolstered the town's traditional base in forestry, farming, and shoe manufacturing.

Mayor Harold G. Sellers, who works at the Ford dealership across Highway 8

ing a subdivision using financing from the local telephone cooperative.

If it's any consolation to President Bush, people in Steelville may not be too disappointed in his speech, if only because they weren't expecting much. Says Pete Lea, a vice-president at the local Peoples Bank: "If we country boys tried to solve our problems like the folks in Washington do, we'd be standing out on Main Street with a tin cup."

By James E. Ellis in Steelville, Mo.

BUSH'S HEALTH CARE Rx: A DILUTED DOSE OF MARKET FORCES

He draws an ideological line on one of the biggest issues of the '90s

Everyone knows that markets don't work in health care. Insured patients, health care experts say, have no incentive to shop for the best deal, while doctors have no reason to become low-cost producers. Democrats want the very visible hand of government to regulate the system. But President Bush has a Republican faith in the market's wisdom. So the health care reform proposal that he is set to unveil in his State of the Union speech will rely on market incentives to cut costs and expand coverage.

The President's choice draws an ideological line for what is likely to be the biggest domestic policy debate of the 1990s. While the Bush plan is still taking shape—details aren't expected until at least mid-February—sources say the Administration will rely on a package of reforms rather than the wholesale overhaul being pushed by Democrats.

The jigsaw-puzzle proposal could leave Bush at a political disadvantage. The Democrats' alternatives—forcing employers to provide coverage or setting up a national health care system—offer good sound bites. By contrast, the public may have trouble seeing how the Bush scheme's multiple elements work together. "It's so easy to be a liberal," sighs an Administration official. "Our plan is much more difficult to understand."

PURIST APPROACH. The Administration got a late start on its proposal. Until recently, top White House officials had hoped to avoid any detailed plan until after the election. But the opposition is scoring on the issue, most recently with a series of public forums on health care hosted by congressional Democrats. And Senate Democrats on Jan. 22 added to the pressure on Bush by sending a bill to the floor that would mandate the way business pays for health care. Now, says Richard J. Davidson, president of the American Hospital Assn., "the heat is on. The White House has recognized it has to provide some leadership."

Bush's search for market-oriented reform began with a proposal pushed by the conservative Heritage Foundation that would require everyone to buy insurance. It would provide tax credits to

individuals whose medical bills are high relative to their income, while phasing out tax breaks to employees with company-sponsored benefits. The idea: inject cost-consciousness into health care by forcing consumers to comparison-shop.

But the Administration rejected this purist approach as "too radical a shift," says Health & Human Services Secretary Louis W. Sullivan. The White House settled instead for a small step in Heritage's direction by providing some health care credits for low-income households and reducing tax breaks for the wealthy (table).

The main beneficiaries of the Bush plan would be the poor and near-poor who don't qualify for Medicaid and have no private insurance. Individuals and families who earn up to 150% of the poverty level (\$20,000 a year for a family

of four) would get a tax credit. Under alternatives being discussed, the credit might be replaced by a voucher or, perhaps, private insurance policies purchased directly by the government. Families earning up to about \$60,000 a year may find it easier to deduct part of their medical expenses on their income taxes.

Even such a relatively modest proposal wouldn't come cheap: 20 million people—more than a quarter of them children—might qualify for the credit or voucher. Bush's plan is expected to cost \$100 billion over five years. Yet its top tax credit would be only around \$2,500. That's below the \$3,100-per-employee average premium paid by small businesses.

For the scheme to work, the government has to provide a credit or voucher big enough so that families can actually buy insurance. So the Administration is zeroing in on cost-containment.

**WANTED
AN ECONOMIC
POLICY**

CAN BUSH CURE WHAT AILS U.S. HEALTH CARE?

Likely proposal

Pro

Con

★ The low-income uninsured would get tax credits. Middle-class workers would get tax deductions to buy health coverage

Would expand the ranks of the insured

Tax breaks may not cover cost of insurance

★ Require all employers to make coverage available, though companies would not have to pay premiums

Uninsured employees could obtain coverage at lower group rates

Employers would have no incentive to find the low-cost medical plan

★ Reform the small-group insurance market

Insurers would be less likely to deny coverage or charge high rates for companies with sick employees

Could mean higher rates for employers with healthy workers

★ Tax health benefits of wealthy households

Raises revenue, encourages employers to opt for cheaper health plans

A political lead balloon

★ Cut federal Medicaid payments to states

Would encourage states to move to managed care

Another blow to weak state finances during a recession

★ Create incentives for small companies to band together to buy insurance

Small companies could get better rates

Such pooling schemes have a history of fraud

DATA BW

The Bush plan emphasizes managed care. Such arrangements as health maintenance organizations scrutinize the treatment that physicians and hospitals provide. Competition for employers' business among such plans, the theory goes, would encourage plans to reduce costs without sacrificing quality. "The government is sending a message to the insurance industry to market policies that are cost-effective," says Michael D. Bromberg, executive director of the Federation of American Health Systems, which represents for-profit hospitals.

Medicare and medicaid will get the biggest push. Administration officials say they'll propose reducing the federal payment to states over time to encourage state health administrators to enroll medicaid beneficiaries in managed care plans. The government will also offer reduced medicare premiums to seniors who join HMOs.

BIG SAVINGS? The private sector will get a nudge into managed care, too. In recent years, a number of states, responding to lobbying by doctors and hospitals, have restricted the ability of insurance companies to develop managed care plans. Bush is going to ask Congress to pass a law that would preempt the



★ **HEALTH FORUM: HOUSE MAJORITY LEADER GEPHARDT MAKES HAY**

states' right to rein in the insurers. And the Administration is looking at ways to allow tax credits to be used only to buy managed care plans.

The Administration's faith in managed care may not be well-founded. While many corporations are rushing pell-mell into managed care, the results are mixed. Only 29% of employers surveyed by A. Foster Higgins & Co., an employee benefits firm, say their preferred provider organizations helped to control their health-care costs.

Under the Administration plan, employer-provided group insurance would still be the backbone of the health care system. To make it easier for small busi-

nesses to provide coverage, the government would encourage them to form insurance-purchasing groups that would have the clout to negotiate better rates. To keep the coverage as cheap as possible, the White House is considering overriding state laws that hamper insurers' efforts to market "bare-bones" policies.

Also on the table is a proposal that would require companies to offer insurance plans while leaving it to the employees to pay the premiums. That could give workers access to group rates, which are considerably cheaper than

individual policies. But it's unclear whether employers would feel any need to shop around for policies that families with tax credits could afford. "All you're doing is making the employer a broker for the insurance companies," says Lynn Etheredge, a health policy consultant.

NEW TAXES. To help ensure continuity of coverage for small business, the Administration is adapting a proposal of Senate Finance Chairman Lloyd Bentsen (D-Tex.) to reform the small-group insurance market. It would prohibit insurers from dropping a company because of high medical bills and would limit yearly rate hikes. Employees could switch jobs without fear of losing coverage. Insurers would also be banned from charging employers with sick workers much more than those with healthy ones. But that might result in higher premiums for employers with low claims.

Financing the plan while holding the line on the deficit means Bush will have to impose new taxes. The Administration is mulling making people earning more than \$100,000 a year pay taxes on any health benefits worth more than \$3,500. The levy at first wouldn't raise much—but the income line could always be lowered to boost the take. It's also thinking about trimming the deductibility of employer-paid premiums. Even touchier is a plan to triple the medicare premiums for those who earn more than \$150,000 annually. Medicare cuts of \$20 billion are on the drawing board, too.

The complexity of the health care issue all but precludes congressional action before the election. "I see '92 as a year where battle lines are drawn, positions are staked out, and people choose sides," says Jack A. Meyer, president of New Directions for Policy, a social-policy research group.

It's no wonder that Bush regrets the political necessity of putting forward a plan. By doing so, he ensures that the election-year health care debate will be noisy, emotional—and highly partisan.

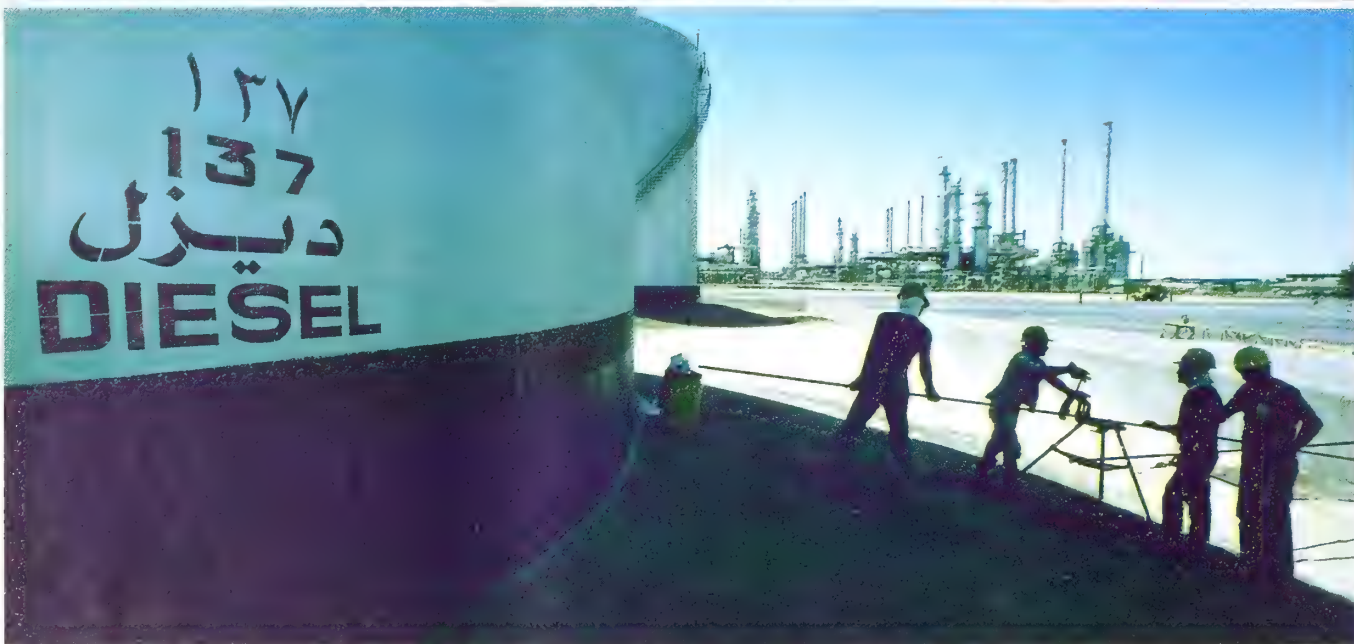
By Susan B. Garland in Washington



BUSH'S PLAN WOULD HELP UNINSURED FAMILIES WHO DON'T QUALIFY FOR MEDICAID

OIL'S DOWNHILL SKID MAY BE ENDING

When even the Saudis can't afford to let crude get cheaper, watch for an OPEC deal to limit production



WITH KUWAIT AND IRAQ MOSTLY OUT OF THE PICTURE, SAUDI ARABIA HAS PUMPED ENOUGH OIL TO KEEP SUPPLIES HIGH AND PRICES LOW

For a nation mired in recession, it has a nice ring: The Oil Price Crash of '92. And for months now, that has been the talk around the oil markets as traders ponder brimming storage tanks, a worldwide economic slowdown, and unchecked OPEC production. Already, crude prices have nose-dived more than \$5 a barrel from their October highs (chart), with some experts predicting that the slide is barely half over.

Don't bet on it anytime soon. In recent weeks, five normally contentious OPEC members have announced plans to cut production by a total of 300,000 barrels a day—with cartel kingpin Saudi Arabia joining in on Jan. 21. With OPEC pumping more than 24 million bbl. daily, the cut-back is minor. Indeed, some experts see the moves as simple posturing aimed at heading off demands for deep cuts at OPEC's Feb. 12 meeting in Geneva. Still, "the fact that they are willing to cut at all is a significant step," says Michael C. Lynch, an analyst for consulting firm Washington International Energy Group. "It certainly improves the

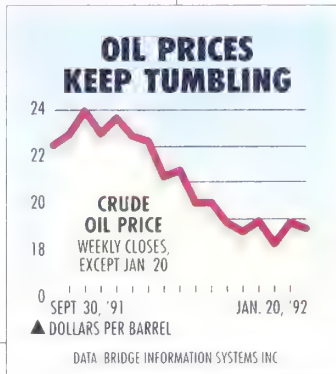
chances that for the second quarter, OPEC will be able to agree on oil-production cuts—and stabilize prices."

All eyes for months have been peering toward the gathering in Geneva. Nearly everyone expects a lively meeting, with Saudi Arabia as the central player. The country now pumps out 8.5 million bbl. a day—and alone has nearly picked up the slack in production caused by the near-total absence of Kuwait and Iraq from the oil markets. But with prices falling, other cartel members have grown antsy, pressing the kingdom to cut output to prop up prices. The Saudis have resisted, angering Iran and other price hawks by arguing that both demand and prices will rise as world economies rebound later in the year.

SAUDI DEFICIT. It's not an unreasonable view. But some experts, Lynch says, figure the Saudis have other mo-

tives. They think that in an American election year, the Saudis would like to help the U.S. out of its recession by keeping prices low. Economists say that with petroleum imports now running at a \$50 billion annual clip, a sustained \$4 drop in oil prices will put an extra \$10 billion in the pockets of Americans over the next year. That could add about 0.3% to economic growth and, combined with potential tax cuts and lower interest rates, spark an upturn by summer.

But the latest move to cut production just a tad suggests that the Saudis aren't committed to helping prop up the U.S. economy indefinitely. The kingdom has run a budget deficit for the past several years—and a nearly \$50 billion tab for the gulf war has further drained its coffers. That means, when push comes to shove, the Saudis are likely to find a way to hammer



at an agreement with other OPEC members. "The Saudis don't have the financial freedom to maneuver that they once did," notes George F. Friesen, oil analyst for Deutsche Bank Capital Corp. in New York. "And that's why I think they won't let prices collapse to \$15 a barrel."

POWER DEMAND. If that succeeds in easing tensions in Geneva, it doesn't guarantee smooth sailing for oil producers. Friesen expects world oil demand to fall 4 million bbl. a day in the second quarter, to 65.6 million bbl. per day. Without further cuts, production will be at 66.2 million bbl., adding 600,000 bbl. a day to stocks that already are double normal seasonal levels. To drive prices back up,

as some members want, OPEC will need to cut at least 1 million bbl. a day more, says Friesen. And that is still viewed as unlikely, since the cartel has always had trouble agreeing on dramatic action.

However any production cutback may be divided—and the Saudis likely would have to absorb much of it—oil experts figure OPEC will emerge from Geneva with a plan to stabilize oil prices near their current level of about \$18.50 a bbl. Leo Drollas, chief economist at the Center for Global Energy Studies in London, a think tank led by former Saudi Oil Minister Ahmed Zaki Yamani, figures that prices will slowly erode over the second quarter, then firm in the third,

thanks to normal seasonal demand.

The real test for OPEC will come late in the year. Kuwait, now exporting around 350,000 bbl. a day, is expected to triple its output. When, as is widely expected, Iraq joins the fray this spring, the result could be 1.5 million bbl. a day in new supplies—at a time when, Drollas predicts, world demand will not have risen by much more than 600,000 bbl. "Somebody will have to accommodate those two countries," he says. "If it isn't the Saudis, it's difficult to see who will." For OPEC, that means the day of reckoning hasn't been avoided—just postponed.

By Robert Buderer in Boston, with Mark Maremont in London

Commentary/by Judith H. Dobrzynski

CEO PAY: SOMETHING SHOULD BE DONE—BUT NOT BY CONGRESS

Recession. Health care. Crime. Drugs. Homelessness. Education. The deficit. These are just a few of America's problems, topics that should dominate the political debate this election year. But what's the newest hot-button among Presidential candidates and on Capitol Hill? Executive pay. Thanks to all the commotion surrounding the generously paid chief executives who accompanied President Bush on his trip to Japan, what had been an annual springtime flashpoint for activist shareholders has flared into a national issue. Now, obscure congressional proposals, such as capping the tax deductions a company may take for executive pay, are gaining support.

Unfortunately, what may sound good to a recession-strung population makes for bad policy. The way Corporate America pays its executives does need revamping: It's not right that the compensation of most CEOs rises each year, as predictably as the sun comes up every day, even if their performance hurts a company's returns and imperils its future. But turning CEO pay into a political issue is pure folly. Since virtually all pay schemes can be manipulated, the solution lies in exposing the process to shareholders and thus to the market.

NEVER UPWARD. U.S. executives can blame two pay gaps for moving the issue to the fore: On average, they take home 160 times the pay of their employees and three to six times that of their European and Japanese coun-

terparts. But that's not the nub of the problem. What counts is whether each individual earns his or her pay. Usually, an executive's pay is determined by a board committee that is guided by pay consultants hired by the company. To ensure that pay is good enough to lure and keep talent, companies usually tell the adviser that they want to set pay levels at a certain industry percentile—often 75% or more. That directive

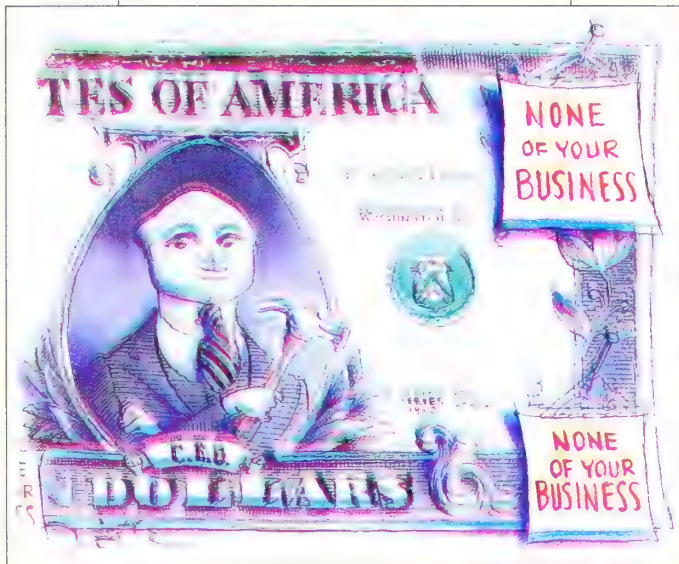
Consider, though, what might happen if Congress tried to limit executive pay to a multiple of the average worker's pay. A CEO could get a raise only if he gave a lot of raises. "The implications for the economy would be disastrous," says Kevin J. Murphy of the Harvard Business School. "Executive pay is a drop in the bucket compared to giving workers a raise—think of the rise in labor costs. And it would completely get rid of pay-for-performance." Other proposals have drawbacks, too.

What can be done?

Boards, specifically compensation panels, must feel the pressure for change. Potential new accounting rules, requiring companies to deduct the cost of stock options from income, may add discipline. Shareholders, meanwhile, should make sure compensation committees consist entirely of independent directors who hire their own consultants. Next, "expose the whole thing to sunlight," says attorney Ira M. Millstein, a corporate-governance expert at Weil, Gotshal & Manges. The Securities & Exchange Commission can do that simply by adding a twist to reporting requirements: Compel pay panels to explain in the annual report or proxy statement what a CEO's compensation really is—in all its components—and why it's reasonable.

Washington may indeed have a role in righting the executive compensation mess. It's just a lot simpler, less glamorous, and less political than the one it's playing now.

itself leads to an upward spiral in pay. Worse, pay committees increasingly have handed out bonuses, stock options, and other incentives keyed to financial results or stock performance, all in the name of aligning management interests with those of shareholders. Trouble is, the inducements have been mainly add-ons, with little downside if an executive doesn't perform—certainly none that materially affects lifestyle. Again, pay only goes up.



WHY LESLIE WEXNER SHOPS OVERSEAS

The Limited's boss finds fault with most U.S. mills

To many American textile executives, Leslie H. Wexner has long been Public Enemy No. 1. His crime: building The Limited Inc. into one of the nation's top clothing chains by selling lots of goods imported from Hong Kong, Taiwan, and other low-wage countries.

The tension escalated to all-out warfare on Jan. 13, when Wexner, who is also chairman of the Retail Industry Trade Action Coalition (RITAC), used a retail convention speech to lambaste U.S. textile makers and call for the elimination of costly import tariffs and quotas. Wexner complained that U.S. mills simply don't offer the same quality, styling, or flexibility as offshore competitors. "The problem with U.S. textile mills," Wexner told *BUSINESS WEEK*, "is that they don't make what we want to buy."

Wexner's fighting words come at a vulnerable time for U.S. textile makers. While imports have risen to nearly 40% of U.S. textile and apparel consumption (chart), textile profits have plunged—from \$1.9 billion in 1987 to \$600 million last year. Meanwhile, during the past 11 years, more than 400,000 U.S. textile and apparel workers have lost their jobs, says the Bureau of Labor Statistics.

U.S. textile makers figure the worst may be yet to come, because of a government proposal to phase out textile quotas. "We've got the most modern technology in the world, but we're being clobbered by people like Wexner who import textiles and apparel," says Roger Milliken, chief executive of Milliken & Co., the country's largest mill.

MISSING LINK. To fight back, Milliken and other mill owners are pouring money into their Crafted with Pride in the USA Council Inc. Designed to encourage U.S. consumers to buy Ameri-

can-made clothing, the group's 500 members have spent \$100 million on "Made in the USA" advertising and promotion. The council's most recent spot, aired just before Christmas, showed a long line of unemployed textile workers. Says Milliken: "We want consumers to understand the link between imports and lost jobs."

If the industry wants to save jobs, Wexner snaps, it should make products he can sell. Consider the case of the terry-cloth bathrobe. Wexner wanted a velour-type terry cloth to fill an order for The Limited's Victoria's Secret Stores division. He figured this would be a good chance to buy fabric from a U.S. mill, since many make terry cloth for towels. But none of the mills Wexner contacted make the cloth. Nor would any of them do a special run. Wexner is still looking for a source.

Donald G. Fisher, chief executive of The Gap Inc., echoes Wexner's gripe. He says he had to go to Korea to fill an order for sweatshirts when a U.S. manufacturer refused to make a 90% cotton blend. "The textile manufacturers in this country are an arrogant group of people who put a line together and say, 'This is what we'll sell you,'" Fisher says.

Much of the problem lies in economies of scale. U.S. mills usually produce huge amounts of basic fabrics, such as denim and sheeting. It's easy for them to efficiently supply jeans manufacturers and such retailers as Wal-Mart

Stores Inc., which relies on basics. But they often can't deliver small amounts of fashion fabrics profitably.

Textile executives say they're working to become more flexible and point to the \$20 billion the industry has spent over 10 years to improve quality and productivity. And they say their mills are implementing quick-response and just-in-time manufacturing systems to quicken deliveries.

'FUZZY.' To bolster their arguments, U.S. mills are learning their way around Washington. Last year, the industry persuaded Congress to pass a bill that would have boosted textile and apparel quotas, which President Bush vetoed. This year, the American Textile Man-



THE MILL OWNERS ARE FIGHTING BACK WITH \$100 MILLION IN ADS

ufacturers Institute is lobbying actively against a General Agreement on Tariffs & Trade proposal to phase out the multi-fiber agreement—which governs most textile and apparel quotas.

The industry's new activism has left some textile makers disillusioned. Springs Industries Inc. in Fort Mill, S.C., known for its antiprotectionist stance, recently pulled out of the Crafted With Pride campaign. "The line of demarcation between Made in the USA promotion and import legislation promotion became a little fuzzy," says a spokesman. Greenwood Mills Inc. in Greenwood, S.C., also ended its membership. "We think our money is better spent improving quality for our customers," says President W. Matt Self.

Retailers are determined to fight the mills' protectionist efforts, couching their arguments as consumer advocacy. Wexner cites an Institute for International Economics study that says quotas and tariffs add an extra \$558 to the average household's annual clothing bill. Retorts Milliken: "That's a figure he pulled out of the air."

The debate is bound to hit an even higher pitch as retailers and textile makers argue their way through the recession. But when all the shouting has died down, mill owners may find that the best way to fight imports is to give customers such as Wexner what they want.

By Walecia Konrad in Atlanta, with Russell Mitchell in San Francisco and Laura Zinn in New York



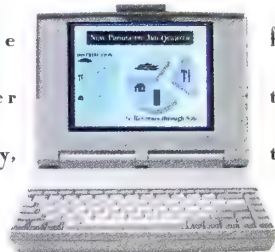
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IS MILKEN READY TO SETTLE?

The civil suits, involving billions in claims, could be wrapped up soon

Judge Milton Pollack is at it again. Last May, the U.S. judge in Manhattan pushed through a smooth settlement in the Drexel Burnham Lambert bankruptcy. Now, he's aiming for another quickie, involving billions in claims by the Federal Deposit Insurance Corp. and scores of investors against Michael R. Milken, Drexel's jailed junk-bond king. It looks as if a full settlement is near. Says Pollack: "I am not taking resistance or defeat lightly."

While the terms are still being hammered out, the pact could total \$1.3 billion. At least \$300 million, say those close to the talks, would be kicked in by some 40 former Drexel employees and about 200 Drexel-related investment partnerships. Milken would add about \$500 million, plus the \$400 million he has already paid to a restitution fund, along with the \$200 million fine he agreed to in his 1990 criminal plea bargain. Insurers would pay \$100 million more. The cash would settle suits charging that defendants rigged the junk market, along with a Drexel suit that claims Milken caused the firm's collapse.

Getting all to agree is one task. Then, the partnerships must dig up the dough to settle. Also, Milken and others want



MILKEN MAY HAVE TO KICK IN \$500 MILLION

to bar all future Drexel-related securities suits against them—which may not be entirely enforceable. "I'm frankly skeptical," says one lawyer.

The heat is on to reach a deal before the Drexel bankruptcy wraps up this spring. That, says David Boies, a lawyer for the FDIC and a Cravath, Swaine & Moore partner, would affect "how much everybody gets in the Drexel bankruptcy." Meanwhile, Milken sits in a Pleasanton (Calif.) federal prison, where he has spent the past 11 months. A hearing on reducing his 10-year term could be held within weeks. However that goes, by settling the civil suits, Pollack says Milken would at least "get to buy his peace."

By Michele Galen in New York

RESEARCH

MEET SILICON VALLEY'S NEW SCREEN HOPEFUL

A leap ahead in flat displays may be on the way—and it's American

Charles "Capp" Spindt is living proof that if you build a better mousetrap, the world may not beat a path to your door. For 30 years, the scientist at SRI International has been developing an innovative technology for fashioning flat television and computer screens. Flat panels are a cornerstone for future technologies, but Spindt couldn't raise the money to build a prototype. "Until Mickey Mouse is running across the screen in full color, we can't sell the idea," he says.

Now, Spindt's persistence may be rewarded. On Jan. 17, chipmaker Micron Technology Inc. bought a small stake in Coloray Display Corp., a private Fremont (Calif.) company set up in 1989 to commercialize Spindt's technology. Neither company will say how much Micron paid, though insiders say it wasn't much. Coloray has been struggling to survive lately, after unsuccessful attempts to win funding. Last year, says Chief Executive Charles F. Antony, it lost much of its top technical talent. The Micron stake brightens the outlook: "We can finally get this thing out of the lab and into the market," Antony says.

Micron is just one of the companies homing in on the "field-

emitter" approach (diagram). Japanese companies such as NEC Corp. and Fujitsu Ltd. have researchers working on the idea. Raytheon Co. is developing superbright displays for fighter-plane cockpits and has been exploring a manufacturing deal with Micron. More than 20 U.S. companies plan to meet on Jan. 28 to discuss a joint effort in the technology.

SHARP PICTURE. Much of the excitement began with demonstrations by French scientists of a 6-inch by 6-inch, black-and-white field-emitter screen capable of showing movies. Corporate researchers like the prospect that the screens could be cheaper than other approaches.

Spindt's field-emitter technology basically is an exotic offshoot of the conven-

tional cathode ray tube (CRT) used in ordinary TVs. Inside a CRT screen, cathodes shoot beams of electrons back and forth across the screen. When the beams hit a phosphor coating on the back of the screen, they cause the material to glow, creating the picture. Field-emitter displays also rely on stimulating phosphor with electrons. But they have thousands of tiny cathodes mounted behind every point on the screen—more than 10 million cathodes per square inch. As a result, a panel three millimeters thick can produce a picture as sharp as a CRT.

The technology may even be better than the current contender for the flat panel of the future, active-matrix liquid-crystal displays. Japanese companies have invested billions of dollars in high-tech factories to make these devices, already used in notebook computers. But active-matrix pictures are hard to see from an angle and are still very costly.

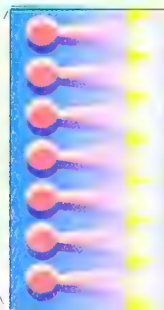
Those problems could turn field emission into a leapfrog technology, and Micron wants to benefit from the leap. The effort could take years and cost millions. With annual revenues of about \$425 million, Micron may not have a lot to put into the project.

Then again, it has a history of doing what others say is impossible. It is the only profitable supplier of bulk memory chips in the U.S.—rivals handed that job to Japan years ago. Combining Micron's semiconductor manufacturing plants with Coloray's and Spindt's patents may be what's needed to bring Mickey Mouse to life on the sliver-thin screen.

By John Carey in Washington, with Robert D. Hof in San Francisco

HOW FIELD EMISSION WORKS

1. Thousands of tiny pixels are housed in a flat screen, which is coated with phosphor



2. As a data signal is received, each pixel sends out its own electron beam. When the beam hits the screen's phosphor coating, it creates an image

DATA BW

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HEARTBREAK AND TRIUMPH IN BIOTECH LAND

Interleukin-2 shows how uncertain the approval process can be

For all those investors who have hitched a ride on the biotech bandwagon, the Jan. 17 news was a reminder of why they hopped on in the first place. An advisory panel to the Food & Drug Administration recommended that Chiron Corp.'s anticancer agent, Interleukin-2, be approved for sale to the public.

Even before the news of the panel's approval had become official, eager market players had bid up the stock to a recent high of 72. Since then, Chiron has been caught in the same downdraft that has buffeted many other biotech stocks, and now it is trading at about 64. But the market's bumps don't change one key fact: If full agency approval follows as expected, Il-2 will soon go into the marketplace alongside almost a dozen other gene-spliced drugs whose combined annual revenues exceed \$2 billion.

For more seasoned investors, however, the announcement stirred up less than pleasant memories. Just 18 months ago, the same advisory panel turned thumbs down on the drug. Rocked by the setback, Il-2's original developer, Cetus Corp., sold out to Chiron. The serpentine history of the drug, in fact, comes with a moral, aimed straight at ambitious biotech companies and their investors: There's more involved in getting a new drug to market than a fancy technology and a drug that seems to work.

NASTY EFFECTS. Il-2 is the genetically engineered version of a protein that occurs naturally in the human immune system. In the early 1980s, in the hands of National Cancer Institute scientist Steven A. Rosenberg, it seemed a wonder drug: Rosenberg used it to shrink tumors in otherwise incurable victims of kidney cancer. Based on Rosenberg's success, Cetus shares soared to 41, an all-time high.

The euphoria faded fast. Wider testing of the drug made clear that it took extremely skilled researchers to use it successfully. Il-2 was tricky to control

and had to be administered in an expensive, labor-intensive method in the hospital. And it had such nasty side effects that in some studies, about 4% of those who got the treatment died from it.

The extensive testing Cetus encouraged proved ultimately to be a drawback. Explains a former Cetus executive: "If you don't get the drug out there, you might miss a serendipitous discovery."



PENHOET AND RUTTER'S FDA PITCH SUCCEEDED WHERE CETUS FAILED

But all those studies can come back to bite you." And bite they did. The FDA requires that all data gathered in testing be submitted for review. The drug had been administered in widely varying dosages under all sorts of different conditions. That complicated Cetus' presentation to the FDA panel, since the company had to collate and analyze data that weren't directly comparable.

Some investors are avoiding biotech as a result of Cetus' fiasco—but many treat the incident as an anomaly

As it turned out, in fact, Cetus' 1990 presentation to the agency's advisory panel was a bomb. Since new data and analysis were pouring into Cetus literally days before the meeting, it was probably inevitable that the company's presentation to the committee would prove confusing. FDA advisers called for more analysis. Robert A. Fildes, then Cetus' CEO, compounded the problem by publicly criticizing the panel. His impolitic outburst alienated his own board, and he quit two weeks later.

Cetus' board lost faith in the independent course Fildes had set, and they set about shopping the company. Last summer it went to Cetus' Emeryville (Calif.) neighbor, Chiron, for \$650 million in stock. That was probably cheap—Cetus had just sold another promising technology

to Hoffmann-La Roche Inc. for \$300 million, leaving it with \$380 million in the bank, products in the lab, a full-scale manufacturing plant, and a sophisticated distribution system, including a European sales organization.

RARE BREED. As a result of that experience, at least one successful California investor soured on the entire industry. "If a company with Cetus' resources couldn't make it," he asks, "how can these little guys?" He has steered clear of biotech ever since.

But biotechnology skeptics are a rare breed these days: The market, which blithely bid most biotech stocks into the stratosphere in 1991, has treated the Cetus fiasco "as an anomaly," notes Misha Petkevich, a partner at Robertson Stephens & Co., a San Francisco investment bank.

Chiron, led by Chairman William J. Rutter and CEO Edward E. Penhoet, two veterans of the approval wars, resubmitted Il-2 to the FDA panel. The company orchestrated a more organized presentation of the reworked Il-2 data to the panel, winning approval rather easily. And indeed, Il-2 may someday live up to its billing. The drug, which has shown itself effective in about 15% of kidney cancer victims, is expected to start slowly, but some analysts believe it could someday climb above \$100 million in revenues as physicians learn how to use it better. Still, a bit of caution is in order. Biotech products may represent a brave new world, but getting them to market demands clearing a bunch of old-fashioned hurdles—one leap at a time.

By Joan O'C. Hamilton in San Francisco

EDITED BY DEIDRE A. DEPKE

HOW TO SPEND \$1 MILLION A MINUTE

CBS is charging advertisers \$850,000 per 30-second spot during this year's Super Bowl, a jump of about 6% from last year's rates. The game, watched by some 39 million households each year, remains the costliest advertising slot on TV—by a long shot

1991	COST PER 30 SECOND COMMERCIAL
SUPER BOWL	\$800,000
GRAMMY AWARDS	319,000
ROSEANNE	194,000
60 MINUTES	187,000
WORLD SERIES First game	185,000
ALL MY CHILDREN	22,000

DATA: NIELSEN MEDIA RESEARCH

REVCO FIGHTS FOR ITS FREEDOM

► Revco Chairman Boake Sells isn't giving up quietly on his hopes to keep his drug-store chain, now in Chapter 11, independent. While most of Revco's creditors have agreed to a bid from rival Jack Eckerd (BW—Jan. 27), Sells has returned to court with a revised recovery plan. He says his will give creditors as much or more than Eckerd's and will end the bankruptcy faster. Whether creditors will bite isn't clear, since they only learned of the plan when Revco filed it on Jan. 22. Eckerd says the company is "confident" its plan will fly.

TRANSPORTATION DRAWS A CARD

► It's musical-chair time at the White House, as the Administration taps one of its own to be the new Transportation Secretary. Andrew H. Card, 44, deputy to former Chief of Staff John H. Sununu, will replace Samuel K. Skinner in the job. Skinner earlier vacated the transportation job to succeed Sununu.

A Massachusetts native, Card holds an engineering degree, but he has spent most of his career in politics. Card has no transportation background, but his low-key style makes quick Senate confirmation likely.

IBM'S KID GOES TO SCHOOL BY ITSELF

► Two months after a big reorganization aimed at giving product groups more autonomy, IBM has turned its educational systems division into a wholly owned company called EduQuest. Along with new profit-and-loss responsibility, EduQuest will get its own sales force to sell computers and software to elementary and secondary schools. The group's new independence is a reward for dramatically increasing IBM's share of the school computer market, from 3% in 1985 to 25% in 1991.

THE NOT-SO-GREAT JAPANESE BOND SCAM

► A yen for selling fake Japanese government bonds landed three people in jail on Jan. 18. The U.S. Attorney in Tampa ended a four-month probe into a scheme to sell 2 trillion yen, or up to \$16 billion, of phony bonds. Two suspects, Bruce Hansberry, 42, and Roger Allen Hill, 55, were

A DAY-CARE CENTER THAT GIVES PAWS

Who says the recession has killed discretionary spending? Not Amy Robinson. Last October, she opened a Chicago day-care center. Not for kids, mind you. For dogs. That's right, bow-wow, arf-arf, woof-woof. And although everyone says they're pinching pennies, the venture seems to be a hit: A Dog's Life, as the venture is called, has enrolled 15 pooches at \$12 per day. Robinson boasts that she already has a long waiting list.

Robinson, a former real estate agent, launched her company after hearing about a poor pup that was venting workaday loneliness by tinkling indoors. That's no problem at A Dog's Life, where charges spend their days chasing around a roomy playground with plenty of trees for you-know-what. Robinson admits her dog days can be tough but says she doesn't miss the business world: After all, it's more fun to have a pup nip at your heels than a colleague elbow you in the ribs.



arrested in Tampa after trying to sell \$100 million of the bonds to undercover agents posing as brokers. Hansberry's mother, B. J. Bravender Ah Loo, was arrested in Los Angeles. The three are being held but have yet to be indicted or enter pleas.

Ah Loo's claim of being managing director of a Hong Kong company offering Japanese "Series 57 National Bonds" drew investigators' interest. Asking for proof of the boasts, they got a photocopy of a 50 billion-yen Japanese bond. But Japan doesn't issue bonds in amounts of more than 1 billion yen.

BIDS ARE BUBBLING FOR PERRIER

► It may not be a French national treasure, but Source Perrier comes pretty close. So when Italy's Agnelli family launched a \$925 million bid to control the water bottler, warning flags went up. Now, Indosuez, the French investment bank, and Switzerland's Nestlé have teamed up to take Perrier for themselves. France's Establishment backs Nestlé—even though analysts call its \$2.5 billion offer "skimpy." Then again, no one should raise a glass yet: PepsiCo or Philip Morris could emerge as a white knight.

A 47TH STREET PHOTO FINISH?

► A sign on the door promises that "a most exciting event is now taking place at 47th Street Photo." The event, it turns out, is a trip to Chapter 11. Plagued by tightfisted shoppers, tax woes, legal wrangles with a former partner, and a squabble with a big creditor, the electronics chain on Jan. 21 sought relief in bankruptcy court. The doors will remain open for now.





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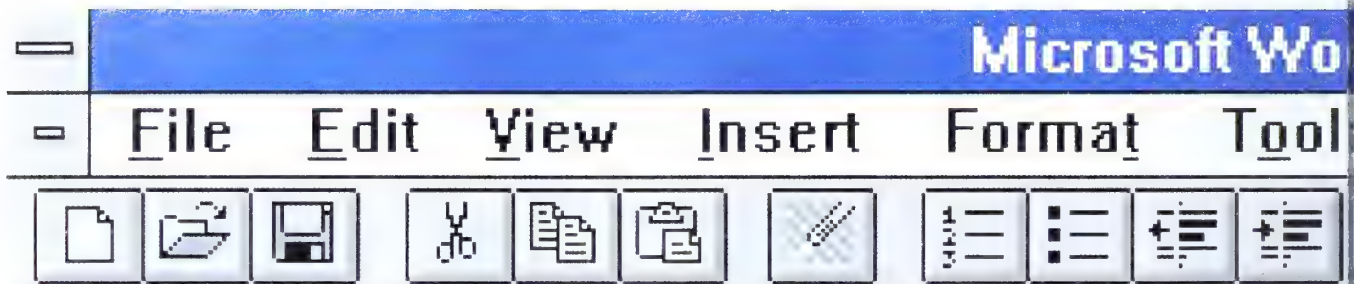
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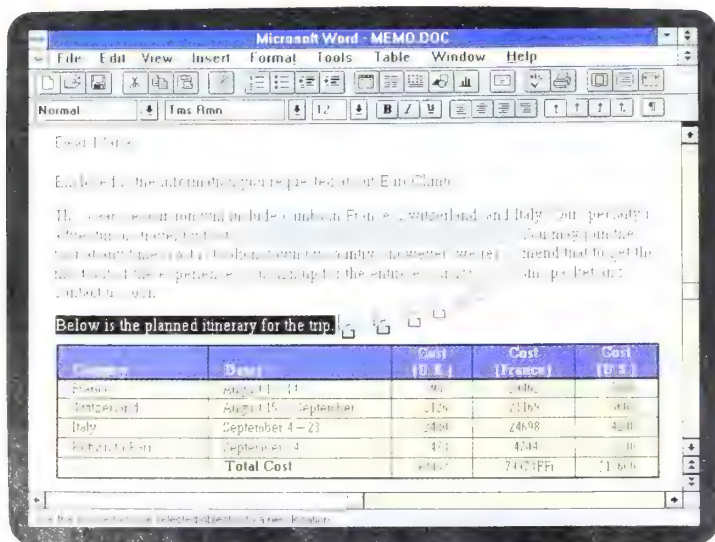


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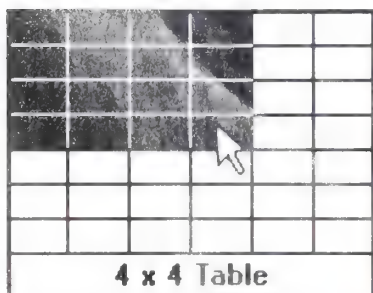


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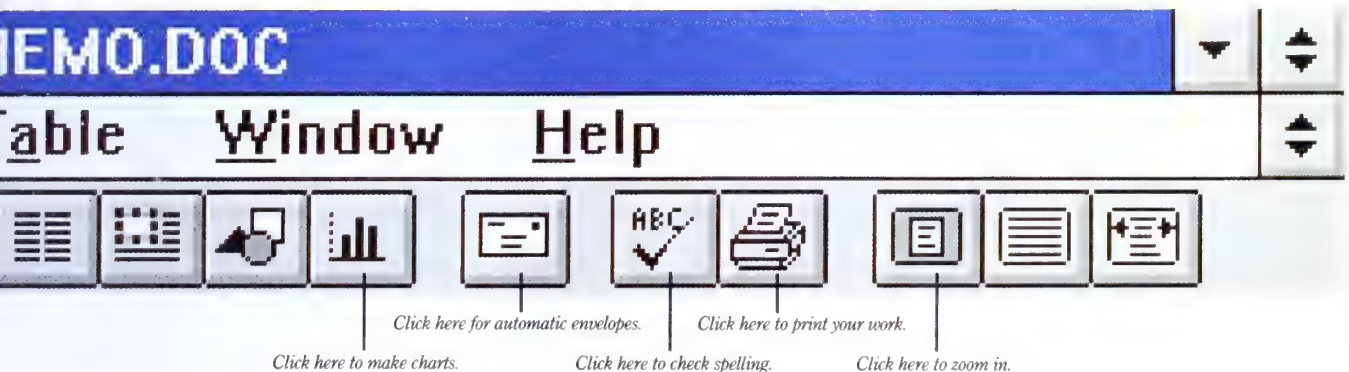


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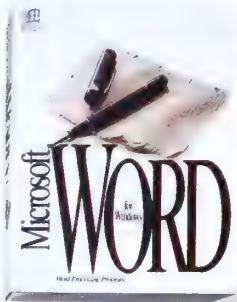


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CAN THE REICHMANNS HANG TOUGH?

Forget bottom-fishing—developer Olympia & York has its hands full in this downturn

In the past, Paul Reichmann almost welcomed recessions, so he could sweep up real estate in New York, Toronto, and elsewhere at bargain prices and expand the sprawling Olympia & York empire. But the current recession in real estate is as dark as the fog that swirled outside his Toronto office on a recent morning. It's "the worst I've seen," he says, in the 30 years since he and his two brothers began building O&Y into the world's leading developer.

That's why, this time around, the last thing on his mind is bottom-fishing. The usually secretive Reichmann admits that O&Y is "suffering in this downturn." Its vast North American holdings are in the black, but Reichmann says that "cash flow is much worse than it was two years ago." The sharpest pain is in London, where O&Y's largest project ever, the \$6.5 billion Canary Wharf development, is bogging down. With some buildings still empty, the Reichmanns are behind schedule in recouping their huge upfront costs—\$3.1 billion to date. What's more, though he expects a general recovery to begin in six months to a year, Reichmann predicts "real estate markets will remain bad... for two to three years at least."

PENNY-PINCHING. Reichmann's game plan tilts all of O&Y's considerable resources toward the 71-acre Canary Wharf site on London's outskirts. He's calling off plans for new projects and is relying on asset sales of non-real-estate holdings to pump cash into Canary Wharf. And he's pushing to get it at least 80% leased within the six to nine months to help ease the company's cash crunch. Reichmann insists that his vision



Reichmann now faces what may be his greatest challenge: keeping Canary Wharf afloat until a recovery arrives

of creating a new business center for London will ultimately pay off, boosting the value of Canary Wharf to "two to three times what we spent on it."

But even Reichmann, one of the most trusted men in business, is finding that financing projects is much more difficult than ever before. A few years ago, he muses, O&Y "could easily borrow 70% of the costs [of a project] on the bricks and mortar alone," without a single tenant signed up. Today, Reichmann observes, "you can't start thinking about lining it up until 75% of the space is committed."

The penny-pinching climate became painfully evident in mid-January, when a dispute between O&Y and one of Canary Wharf's major tenants, Morgan Stanley & Co., escalated into court action. Morgan Stanley had paid for the construc-

tion of its own building, and O&Y had agreed to buy back the building for \$240 million. In early 1991, O&Y hired the investment bank to arrange the financing for such a transaction.

Reichmann declines to discuss the matter. But according to Michael Dennis, executive director of Olympia & York Canary Wharf Ltd., "Morgan was telling us they were confident" the financing could be done only a month before the Dec. 12 trigger point in the contract that gave Morgan the option to demand its money. Then, the board of the Japanese institution that was supposed to provide \$180 million of the money decided it would only commit \$72 million, and the entire deal collapsed.

O&Y executives wanted to postpone the deal. But Morgan says that "it was ex-

licitly agreed that O&Y was not relying on our efforts" to line up financing and that O&Y was "unconditionally" obligated to buy the building under a sale-leaseback deal. Morgan is now suing Olympia & York in London for the \$240 million.

O&Y is clearly worried that the public brawl will only further hamper the project's credibility among prospective tenants and already nervous bankers. "A crisis of confidence is the one thing that can screw us up," worries one London insider. Meanwhile, says Dennis, O&Y is already searching for another investment bank and is confident they will arrange a deal—backed by Morgan's credit as the building's lead tenant—before the case ever comes to trial.

Reichmann is anxious to move ahead on financing for other buildings in the vast project. By April, he says, O&Y will have financed the central tower, which is largely leased, through a \$540 million private placement with a small group of institutions. Dennis adds that while Canary Wharf is only 57% leased now, O&Y is in talks with four or five major new tenants and expects some signed deals in the next few months.

So far, O&Y has lined up outside financing for only \$1.1 billion of its investment in Canary Wharf—in construction loans. The remaining \$2 billion came from O&Y's credit lines and asset sales. Since late 1990, O&Y has raised some \$1.2 billion by selling Consumers' Gas Co., Canada's largest natural-gas supplier, and its 9% stake in Allied-Lyons PLC. Without those sales, Reichmann admits, "we would have had much more difficulty finding the money."

The New York City slump is adding to woes. The Reichmanns "have to be feeling severe pressure from their downtown buildings" in Manhattan, says Lloyd Lynford of REIS Reports Inc. As downtown vacancy rates have soared to 19%, rental rates have fallen 30% since 1987, Lynford figures. With its top-grade properties, including the fully leased World Financial Center, O&Y has held its downtown vacancy rate to 10%.

METRO LINK. For all this, Reichmann shows a characteristic calm, keeping an eye on the long view. He says he expects to sell O&Y's stake in Interprovincial Pipe Line Co., North America's longest crude-oil pipeline system, this year, figuring it should command full value. Its current market value is more than \$600 million. He's hesitating on plans to sell Home Oil Co. in the depressed market "because we have not gone after fire sales." He also plans to keep O&Y's other major industrial interests, worth at least \$5 billion, reasoning that such currently depressed holdings as newsprint giant Abitibi-Price Inc. and Gulf Canada Resources Ltd. will eventually revive.

Nor is Reichmann backing off from a

planned expansion of Canary Wharf. O&Y has put the lid on any major additional construction, planning to open only five or so "small" buildings between now and 1996. But Reichmann says he's still planning to launch the 1994 phase of Canary Wharf to ready it for the expected 1996 opening of a key transport link, the extension of London subway lines to the project. This phase will cost several billion dollars more.

By then, Reichmann bets that Canary Wharf will be irresistible. "London is the

only major city in which two-thirds of the office space is obsolete," he reasons. Reichmann figures today's low interest rates in the U.S. are certain to fuel inflation, sparking a resurgence in real estate by the mid-1990s—and allowing O&Y to boost rents. It's such musings on long-term trends that are Paul Reichmann's trademark. All he has to do now is be right again.

By William C. Symonds in Toronto and Mark Maremont in London, with Elizabeth Weiner in New York

CHINA

YANKEE TRADERS BREATHE A SIGH OF RELIEF

Beijing's last-minute deal with Bush is a boon for U.S. business



SMOOTHER ROAD? CHRYSLER MAY EXPAND ITS LONG-TRIOUBLED JEEP OPERATIONS IN BEIJING

On the verge of an all-out trade war, negotiators were locked in heated talks in Washington on Jan. 16 over how to protect U.S. copyrights and patents in China. For months, tension had been mounting over a host of Chinese trade abuses, from textile cheating to prison exports. If the talks failed, Washington was threatening to slap 100% duties on up to \$1.5 billion worth of Chinese imports the next day. In turn, Beijing vowed to retaliate against U.S. companies. A nasty election-year fight in Washington could have poisoned the entire \$25 billion trading relationship.

But the stalemate was broken just before the U.S. deadline. Under the accord, China promised to outlaw theft of software and agreed to protect patents of agricultural chemicals and pharma-

ceuticals. Washington, in return, decided to scratch China from its "priority list" of trading rogues. The new accord was a badly needed victory for President Bush's widely assailed China policy. Renewal of China's most-favored-nation trading status this June seems assured.

All of this is bringing a profound sense of relief to U.S. companies doing business in China and Hong Kong. Even though Washington's relations with Beijing had been on a dangerous slide, U.S. companies serving the Chinese market had been quietly but sharply increasing their stakes. "We have been chewing our nails over this," says Thomas M. Culligan, McDonnell Douglas Corp.'s vice-president for program development and marketing. "Thank God they both agreed."

Now that both governments have

NEW ENGINE, NEW TRANSMISSION AND TO THINK MOST PEOPLE

On September 1, 1991, the presses at *Car and Driver* rolled and declared the Nissan® Maxima® SE the "Best Import Sports Sedan under \$25,000."

That night the engineers at Nissan quietly celebrated.

And took pleasure in the knowledge that the press hadn't, well, seen anything yet. For that same month the new 1992 Maxima was launched. A car our engineers had completely reexamined, revamped, and retooled, literally from the ground up.

One glance at the 1992 engine and you immediately detect a perfectionist mentality bordering on the obsessive. For there lies a new 3.0-liter, 24-valve DOHC V6 multi-point, fuel-injected variable valve timed engine.



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whichever front wheel has greater traction. So both stability and your self-composure are never lost.

And a remarkable revamped 4-wheel independent suspension system allows you to negotiate curves without compromising responsiveness or performance.

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A new front Viscous Limited Slip Differential transfers additional power to

Some things on the Maxima, however, take years to appreciate. Because over a two year period, the SE retains 70% of its value. That's higher than BMW 525i and Acura Legend.

All of which suggests there is one thing our engineers can't change on the Maxima SE. Our customers' satisfaction with it.



BUILT FOR THE
HUMAN RACE

stepped back from the brink, the U.S. could start to play a bigger role in the Chinese domestic economy than ever before. General Motors, Motorola, and Du Pont are pushing ahead with major manufacturing investments that had been shelved after the 1989 Tiananmen Square massacre (table). Chrysler Corp. is discussing an expansion of its long-troubled Beijing Jeep operations. Manufacturers such as Boeing, Hewlett-Packard, and General Electric are making big-ticket sales left and right.

China's long-elusive market of 1.1 billion people is also picking up. A host of U.S. consumer-product giants is finding a booming business in everything from Head & Shoulders shampoo to Heinz baby food. "We're very optimistic about the market," says Barry Wong, manager of Avon Products Inc.'s operation in Guangzhou, which has signed up 8,000 saleswomen since opening in November, 1990. Procter & Gamble Co. says its business in China is growing at a 50% clip.

Part of what motivated the Chinese to strike a deal on intellectual property was fear of U.S. retaliation. But it may also be a reflection of the increasingly strong role being played by pragmatic officials at the top of the Chinese bureaucracy. Although hard-line conservatives still reign supreme in politics and the military, there is evidence that the reformers are once again driving the economy.

Even modest progress on patent abuses will create a new climate for U.S. companies. Many makers of software, pharmaceuticals, and computers had been holding back out of fear their products would get ripped off. "After these changes, I'm sure a lot of companies will be looking to expand in China," says Joseph Simone, a U.S. lawyer in Hong Kong who chairs the American Chamber of Commerce's intellectual-property committee.

BULGING COFFERS. To be sure, investor enthusiasm is still a far cry from the heady period before the bloody crackdown at Tiananmen Square in 1989. Doubts remain over China's stability after ailing octogenarian leaders such as Deng Xiaoping die off, and its most-favored-nation trade status could be attacked again if a Democrat wins the White House.

But for companies ready to tap into

the growing domestic Chinese market, business is brisk. Thanks to China's booming exports, which have produced a windfall in hard currency, including a \$15 billion trade surplus with the U.S. last year, the government has backed off from an austerity program launched in 1988. The policy succeeded in slashing inflation from 18% to below 5% now. As China's coffers swell with \$35 billion in foreign-exchange reserves, Beijing's more confident economic planners have given the green light to U.S. companies to satisfy consumer demand.



Chinese consumers have money to spend, particularly in places such as Guangdong, a southern coastal province that is home to some 70 million people. With housing subsidized by the state, even workers earning only \$900 a year have a surprising amount of discretionary income to spend on shampoo, packaged foods, and cosmetics. The hunger for brand-name goods has been intensified by TV ads broadcast from Taiwan and Hong Kong. Colgate-Palmolive Co. recently announced its first joint venture to produce and market Colgate toothpaste in southern China. And P&G, which already sells shampoo, is building a new plant to make tampons. Meanwhile, H.J. Heinz Co. is building a second baby-food plant for \$17 million in the port city of Tianjin.

The auto industry is also gathering speed. Two years ago, this sector was so sluggish that the Chinese government had to bail out ventures by Chrysler, Volkswagen, and Peugeot. Now, all three are selling everything they can produce. Chrysler's Jeep plant, once plagued by parts-supply problems and acrimonious disputes with its Chinese partners, is now profitable and is weighing plans to double output to 100,000 Cherokees by 1995, according to industry sources. And by 1998, GM expects to be turning out 50,000 S-class pickup trucks annually.

Motorola is also taking the plunge. It was about to launch a \$300 million venture in Tianjin when the political scene erupted in 1989. Now, the company is going ahead with an assembly plant for semiconductors, mobile phones, and auto electronics, although it has scaled the investment back by nearly two-thirds.

Racing to meet crushing demand for air travel, China is considering buying up to 150 jets from a McDonnell Douglas joint venture in Shanghai. Last year, China ordered 34 Boeing jets worth \$1.6 billion. Those orders also brought \$105 million in business to GE, which supplies engines to Boeing.

Although the irritations are certain to continue, there's no denying that the mood among U.S. executives in China is uncharacteristically upbeat. In fact, one of their main problems is to avoid at-

tracting too much attention. "None of us wants to look like we're waving the flag for the butchers of Tiananmen," says an American executive stationed in Beijing. With Corporate America's role in China back on the fast track, keeping all the new deals secret will be increasingly difficult.

By Pete Engardio, with Lynne Curry, in Beijing, and Laurence Zuckerman in Hong Kong

THE GROWING U.S. STAKES IN CHINA

Company	Investment Millions	Product
MOTOROLA	\$120	Semiconductors, mobile phones
GENERAL MOTORS	100	Trucks
DU PONT	25	Herbicides
H. J. HEINZ	17	Baby food
PROCTER & GAMBLE	15	Tampons
AT&T	10	Optical fiber plant
GENERAL ELECTRIC	10	CAT-scan equipment

DATA: U.S. CHINA BUSINESS COUNCIL/BW

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SAMSUNG: KOREA'S GREAT HOPE FOR HIGH TECH

It is pulling ahead of other *chaebol*, but can it compete against the likes of Sony and GE?

It was the old patriarch's obsession: As founder of South Korea's powerful Samsung business group, Lee Byung-Chull wanted more than anything to narrow his country's technological gap with Japan. Semiconductors were a particular target, so he ordered chip engineers to work around the clock. The pressure was so great that some fled to other companies. But the research money flowed. "Don't worry about the cost," Lee once said. "Just give me the chips."

Although Lee lived to see Samsung make 1-megabit dynamic random-access memory chips, he died before the crucial 4-megabit DRAM saw light in 1988. So, to honor his wishes, executives took the very first of the new crop of chips off the assembly line, headed for Lee's burial place, and laid the chip on his grave.

That sense of mission at Samsung hasn't slackened. The group sees itself as going head to head against the world leaders. Because they are outgunned in money and technology, the Koreans figure the only way they can win the battle is through sheer determination, working late into the night while the Japanese sing *karaoke*. Today, Samsung ranks fifth among memory-chip makers, with \$1.2 billion in sales, according to market researcher Dataquest Inc. Hitachi, Toshiba, NEC, and Fujitsu are the top four.

NO METAL-BENDER. As it emerges as Korea's No. 1 technological powerhouse, Samsung is showing the same competitive drive in telecommunications, aerospace, chemicals, and other fields. Chairman Lee Kun-Hee, 49, son of the founder, is attempting to transform Samsung into a competitor against the likes of Sony Corp. and General Electric Co. The U.S.- and Japan-educated Lee, who took over five years ago, has shaken up management across the group by decentralizing decision-making. And he has modernized investment priorities:

Today, of all the Korean business groups, or *chaebol*, Samsung spends the most on research and development, 8.6% of manufacturing sales, compared with 2.2% by Korea as a whole.

With an expected \$50 billion in sales in 1991, Samsung is coming to be seen throughout Asia as the most formidable non-Japanese Asian company, dwarfing its Taiwanese and Southeast Asian rivals. While Samsung still depends on some technology from Japan and the U.S., it clearly is breaking out of the pack of the traditional four largest *chaebol*; the others are Hyundai, Daewoo, and Lucky-Goldstar. In so doing, it has become Korea's best hope for making the leap from a cheap-labor, metal-bending nation to one that competes in advanced technologies.

Once a producer of everything from sausages to ships, Samsung now aims

to pare down the empire and concentrate on the core businesses of machinery, electronics, and chemicals (table). Lee vows that the days of emphasizing growth and size over quality are over. Today "we must specialize," Lee told BUSINESS WEEK in a rare interview. "If we don't move into more capital- and technology-intensive industries, our very survival will be at stake."

Lee is relying on several different tools to tame the hydra-headed conglomerate. In some cases, he is selling companies outright and has divested \$3 billion worth of businesses since 1989. He is consolidating groups with related businesses. And more restructuring moves are expected in the next three years.

Under Lee's blueprint, Samsung Electronics, the flagship of the Samsung group, will take center stage, accounting for 65% of the electronics business overall.

Consumer electronics still is the leading sector, but as costs have climbed and the global nature of the business demanded local production, Samsung has shifted most of its color TV, VCR, and microwave production to 11 plants scattered from Southeast Asia to Europe to Mexico. Semiconductors now account for 22% of Samsung Electronics' \$7 billion in total sales as of 1991.

The multibillion-dollar, state-of-the-art microchip plant in Ki Heung is Samsung's monument to its vision of the future. So far, Lee has invested \$2.2 billion in the plant and plans to invest an additional \$1 billion by 1993. Already, Samsung has the highest global market share in 1-megabit DRAM chips. And it even has ambitions to beat the Japanese in the 64-meg DRAM market when the product comes on stream in 1993. It also has joined with Hewlett-Packard Co. in the joint design and development of sophisticated reduced instruction-set computing (RISC) micro-



WORKERS' FESTIVAL A SENSE OF MISSION

SAMSUNG'S DRIVE TO ZERO IN ON HIGH TECHNOLOGY

In 1991, Samsung had about 30 companies sprawling across many lines of business. Core technology businesses accounted for about 26% of its \$49.3 billion in sales. Total estimated profits: \$342 million

By 2000, the group's goal is to reach \$200 billion in sales but to dramatically pare the total number of companies. Core businesses should account for nearly 75% of sales

CORE BUSINESSES

1991 UNCONSOLIDATED SALES



DATA: SAMSUNG, BW

OTHERS

SUBJECT TO RESTRUCTURING

SAMSUNG Trading
INSURANCE, ENGINEERING UNITS
JOONG-ANG DEVELOPMENT Construction
SAMSUNG WINNERS CARD Credit cards
SAMSUNG MEDICAL SYSTEMS
SAMSUNG DATA SYSTEMS
JOONG-ANG DAILY NEWS
CHEIL COMMUNICATIONS Advertising
SAMSUNG LIONS Baseball
KOREA SECOM Industrial safety
CHEIL FOODS & CHEMICALS
CHEIL INDUSTRIES Textiles
TRYING TO SELL OR SOLD
CHEIL SYNTHETICS Polyester yarns and films
CHONJU PAPER
HOTEL SHILLA
SHINSEGYE DEPARTMENT STORE

processors for HP's highly regarded line of workstations.

Samsung's progress in the less advanced chips has made believers out of some former skeptics. "The fact that Samsung has achieved high production levels of 1- and 4-meg memory chips is a sign that the company has made very significant strides," says a Japanese industry executive in Tokyo. Doing it without Japanese or American partners "shows that they made an enormous effort."

LIMITATIONS. Moreover, Samsung has cleared up doubts about its quality by winning IBM's seal of approval as a supplier. "Four years ago, we couldn't find anything we needed in South Korea," says Gordon A. Campbell, chief executive of San Jose (Calif.)-based Chips & Technologies Inc., one of the top U.S. producers of chip sets for personal computers. "But today, they have the technology to support maybe three-quarters of our product lines."

Samsung has a way to go, however. Experts question its R&D and design capability. Although the Koreans have been able to master the manufacturing of memory chips, they still depend on U.S. or Japanese companies for the necessary equipment—a limitation on their technological independence.

Samsung also is coming on strong in digital phone-switching systems. In November, Samsung installed 2,000 lines in St. Petersburg, free of charge, and signed a \$1.2 billion contract with the Russian government to overhaul the republic's telephone system. Now, Samsung is considering deals in Eastern Europe to sell a Korean-designed and manufactured switching system.

In aerospace, Samsung Aerospace won a \$2.5 billion contract in November to co-produce 120 of General Dynamics Corp.'s F-16 fighters in Korea. Samsung, as the main contractor and assembler, will lead a consortium of 20 Korean companies. Samsung also will assemble Pratt & Whitney engines for the F-16s. Investing heavily in all its aerospace activities, Samsung expects to plow in \$540 million by 1994.

In field after field, Samsung has set ambitious goals. But while it has made impressive progress, Samsung still finds itself maddeningly dependent on its partners' technologies. The group

**ON ITS OWN JAPAN AND THE
U.S. ARE BECOMING RELUCTANT
TO SHARE TECHNOLOGY**

also faces huge management challenges as it attempts to expand overall sales fourfold by the year 2000, to a staggering \$200 billion. Indeed, creating a corps of world-class executives requires a virtual revolution in Korean management style. The reason is that Samsung's success, much like Korea's own, was built on a combination of cozy government-business relations, state subsidies, a cheap, hard-working labor pool, and a lock on domestic markets. A succession of authoritarian governments made exports and growth a top priority.

Times have changed. Labor unions have become militant in the wake of

democratic reforms, resulting in big wage increases. Although Samsung isn't unionized—all the other big *chaebol* are—its costs are high: Wages overall have doubled in the past three years, helping to price many of Samsung's consumer products, such as VCRs and TVs, out of foreign markets.

In the new climate, beating Goldstar or Daewoo no longer is enough. Samsung has to compete against world leaders. It's Lee's mission to bring Samsung into this new age. After a decade under his father's tutelage, Lee is putting his stamp on the company, lifting the heavy, authoritarian hand and challenging managers to be innovative.

STILL TINY. Lee's toughest hurdle is in technology. Japan already has begun tightening up on sharing of secrets, fearing a "boomerang" effect. Americans, too, are becoming more sensitive about giving away their intellectual property. While Samsung may be close to standing on its own technological feet, it needs more time. Its R&D budget is large by Korean standards, but it is still tiny compared with those of its major Japanese and U.S. competitors.

Ironically, the more Samsung succeeds in mustering technological prowess, the less it can expect foreign partners to share critical technologies. "They see us as a threat," says Samsung Electronics Executive Director Kim Hoon. So, even as Samsung works overtime to become a technological powerhouse, it still needs the driving spirit of old Mr. Lee to get where it wants to go.

By Laxmi Nakarmi in Seoul, with Neil Gross in Tokyo, Rob Hof in San Francisco, and bureau reports

IS EUROPE'S EXPRESS TRAIN TO UNITY SLOWING DOWN?

In just 11 months, the world's largest and richest trading bloc will officially come into being. But instead of romping down the homestretch toward a united Europe at the end of 1992, Europeans are beginning to sulk under the weight of a widespread economic slowdown.

The outlook is for the European Community's economies to grow at a disappointing 1.5% in 1992—down from 2.5% in 1991. This downturn is leading to bickering and discontent that could brake the momentum that the European unity freight train gathered at this past December's Maastricht summit. General elections are looming in many EC nations. At the very least, the need to play to domestic audiences and address economic problems is bound to divert politicians' energies from stumping hard for monetary and political union.

Indeed, many of Europe's old guard find themselves on shaky ground. In France, not only is 1992's leading advocate, President François Mitterrand, expected to retire by 1995 but he could also be forced into cohabitation as early as 1993 with a right-wing Parliament less sympathetic to the project. And British Prime Minister John Major, a deft compromiser on European issues, faces a stiff test from Labor later this year.

IN ECLIPSE. Nationalism is clearly on the rise. Across the Continent, extremists such as France's anti-immigration leader Jean-Marie Le Pen, German neo-Nazis, and other rightists are hoping to embarrass the Establishment by making a strong showing in local elections this spring.

As the witching hour for European unity draws near, resentment is growing over Germany's increasingly dominant position. Europeans blame the interest rates set by the Bundesbank for aggravating their economic problems. "High German rates are hurting everybody," says Eric C. Elstob,

deputy chairman of Foreign & Colonial Investment Management Ltd. "The pain is being spread across all of Europe."

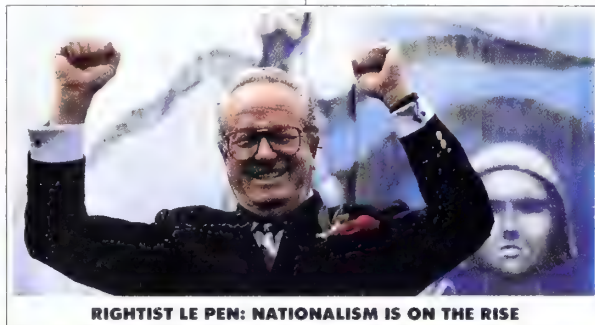
While other countries look on uneasily, the Germans are parlaying their economic clout into increasing control over the EC political agenda. Last week, they twisted arms to get unanimous EC recognition of Croatia and Slovenia. Not surprisingly, the new German show of strength is creating unease in France, which has been eclipsed as the EC trailblazer. Some French politicians and intellectuals are decrying the single currency and other points agreed to at Maastricht. "France is renouncing its right to coin money, a right we have had since Philippe le Bel [a medieval king]," complains Marie-France Garaud, chairman of the International Institute of Geopolitics in Paris. "This is a major loss of sovereignty."

The downturn and the stepped-up job cuts at companies ranging from Italian computer giant Olivetti to France's Peugeot are also fanning protectionist feelings. German Chancellor Helmut Kohl, for instance, wants the EC to embrace Eastern Europe and the former Soviet Union, but other

countries, such as France, are digging in their heels for fear of losing further jobs to cheap Eastern labor. "Germany sees great potential danger in what is happening in Russia and other former Soviet states," says German Foreign Ministry adviser Jochen Thies. "Yet other European and Western nations are looking the other way."

Does the current bout of dyspepsia mean European unity is in trouble? Most observers say not yet. But the political consensus that has driven 1992 is showing the first signs of fraying. Chances are that Europe in the '90s will witness a political shakeup to rival its economic restructuring.

By John Rossant in Rome, Richard A. Melcher in London, and Stewart Toy in Paris



RIGHTIST LE PEN: NATIONALISM IS ON THE RISE

GLOBAL WRAPUP

GERMANY

A winter of labor strife is looming. Following the collapse of steel contract talks on Jan. 22, the powerful IG Metall, Germany's biggest union, is asking 135,000 steel workers in the country's Ruhr industrial heartland to vote to strike. If they do, as expected, it will be Germany's worst labor conflict since IG Metall's three-month job disruption in 1984.

The steel battle is a bellwether for millions of other German workers and their employers. It is also being closely watched by the Bundesbank, which has driven German interest rates up to the highest level in its history to stamp on

what it fears is a looming wage-price spiral. The government is calling for settlements "substantially below" 1991's 6.5% average.

But already, 430,000 bank workers have started a series of short warning strikes, while 1.2 million government workers will soon begin talks. Employers complain that the double-digit pay hikes that the unions are calling for will cripple their ability to compete in global markets.

RUSSIA

President Boris Yeltsin is shooting his own economic reform program in the foot. Yeltsin badly needs foreign investment, but his officials have

slapped what amounts to a confiscatory 50% tax on hard-currency export earnings, in addition to a tariff of \$4.50 on every barrel of Russian oil exported. Western companies say they aren't interested in investing in Russia if these policies remain in effect.

Some Western oilmen think the inexperienced Russians will soon come to their senses and slash the levies. At present, they say that all jurisdictions, from Yeltsin's Moscow central government to local councils, are tacking on tax after tax without coordination. "If you added them all up, it would amount to 100% of revenues. They know they can't do that," says one optimistic American executive.

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ON THE SET OF MGM'S *RUSH*: THE SCREEN ACTORS GUILD FACES TOUGH NEGOTIATIONS

UNION WORKERS WILL GET SOME BREAKS IN '92

For the survivors, raises are likely to keep pace with inflation

For most workers, recessions are the worst of all worlds. Layoffs increase, new jobs dry up, and employers become tightfisted with pay. Since many economists, even optimists, expect sluggish growth at best in 1992, the outlook for unionized workers would logically seem to be as grim as for everyone else. But the year may not be so bad for the 3 million or so union members whose contracts will expire.

True, some remain vulnerable to layoffs. But the rest may win wage increases that come closer to the anticipated rise in inflation than at any time in nearly a decade. A Conference Board panel of labor experts predicts that pay raises for union members will average 3.4% in 1992, while inflation will come in at 3.5%. Employers say the same thing: Some 85% of those bargaining in 1992 plan pay hikes that approximate or exceed inflation, according to a survey by the Bureau of National Affairs, a private company based in Washington.

'LITTLE PRESSURE.' The reason: a combination of low inflation and rising productivity. In manufacturing, where unions are concentrated, productivity is rising nearly as fast as wages. So, increases in labor costs per unit of output "are almost zero," says David Lewin, a profes-

sor of industrial relations at the University of California at Los Angeles, and "there's little pressure on employers."

In fact, in relative terms, union workers have begun to fare better than they did during the 1980s. Their wage increases have averaged 3.7% since April, 1990, according to the Bureau of Labor Statistics. During this period, organized workers did as well as nonunion ones for the first time since 1983.

They're even doing a bit better if benefits are included: Union members got a 4.8% increase in total compensation in the 12 months ended in September, vs.

4.3% for nonunion workers. Union contracts are more likely to provide health insurance, whose costs have outpaced inflation. That promises to cause friction this year, however, since 70% of union employers plan to rein in medical costs, according to the BNA survey.

Of course, there will be some battles over pay. The 74,000-member Screen Actors Guild (SAG) is likely to demand at least a modest increase in its \$448-a-day minimum. But box-office results have declined for two straight years, and video and cable sales are lackluster. So TV and movie producers are in no mood to give much. Already, the studios are playing hardball by insisting that all production be wrapped up before SAG's contract expires on June 30. For instance, Disney won't start any films after Apr. 1. This could affect films such as *The Distinguished Gentleman*, starring Eddie Murphy, which is due to start shooting in mid-March. Much of a delay could put that film on hold.

PHONE TROUBLE. Jobs will be the flash-point in one of the few large union contracts expiring this year. American Telephone & Telegraph Co.'s relations with its two unions have frayed badly in recent years, primarily over layoffs. As the company has streamlined its core manufacturing business, its unionized employment has fallen from 240,000 in 1984 to 132,000 today. Meanwhile, new technology and acquisitions have swelled AT&T's white-collar ranks by some 7,000, to 118,000. The purchase of NCR Corp., which has only about 1,300 union members out of 27,000 U.S. employees, puts organized employees in the minority for the first time.

This situation, among others, could lead to a strike. The Communications Workers of America (CWA) is demanding that AT&T remain neutral in organizing drives. And last year, AT&T Chairman Robert E. Allen and CWA President Morton Bahr set up a union-management committee to hammer out rules for AT&T to follow during organizing drives. But extending this approach to NCR, as the CWA wants to do, is another matter. Already, the computer company is actively opposing the CWA in an organizing election set for NCR field-service engineers in Dayton. "It doesn't make sense to have a union in a nonunion industry," says William W. Holloway, NCR's vice-president for personnel.

Except for such disputes, 1992 could be a calm bargaining year. Union workers who survive layoffs may keep pace with inflation. And for them, that's the best news in a long, long time.

By Aaron Bernstein in New York, with Ronald Grover in Los Angeles

LABOR'S 1992 BARGAINING CALENDAR

Employers	Contract expiration	Number of workers
RETAIL FOOD	February-October	73,000
AEROSPACE	April	61,000
ALUMINUM	May	21,000
AT&T	May	100,000
HOLLYWOOD	June	109,000
CONSTRUCTION	June-December	103,000
BELL COMPANIES	August	320,000

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Here in the States, where the Japanese have made inroads into this automotive segment, Audi knew it would have to hold its ground against the popular Japanese contingent. And in a comparison test conducted by *Road & Track*, it did just that. As they put it, "...this confident 'new' Audi has a distinct voice, and it can roar with the best of the lions from Japan...The Audi (is) rock-solid, running as sound as a Deutsche mark...It's more affordable than the Legend...(and)...has driving personality and road-course character all over the Legend."

When the new Audi 100 was unveiled in Europe, automotive experts there "did a 180" — reversing their perception of Audi vis-à-vis the competition. Given the opportunity to get behind the wheel of a new Audi, those considering a high-line Japanese car may soon find themselves "doing a 180" as well.

For more information on the all-new Audi 100 V-6, call 1-800-FOR-AUDI.

At right, the new Audi 100CS.





STRATEGIES

NO MORE MR. NICE GUY AT P&G —NOT BY A LONG SHOT

Is Edwin Artzt's like-it-or-lump-it management style doing more harm than good?

Standing at the dais, Procter & Gamble Co. Chairman Edwin L. Artzt surveyed the huge crowd below. The scene was a management dinner in P&G's hometown of Cincinnati, and Artzt wanted his top executives to stand for a moment so they could be introduced to their fellow managers. Finally he spotted Executive Vice-President B. Jurgen Hintz, responsible for P&G's struggling food and beverage operations, in the back of the room. Leaning into the microphone, Artzt quipped: "I guess you can tell people's business results by where they're sitting."

Hintz, who left P&G last June, laughs off the incident. But to other P&G executives, the joke seemed surprisingly sharp-tipped. By now, though, they know that P&G's chairman doesn't play by the same genteel rules as his predecessors. Gone for the moment is the notion of low-profile, gray-suited leadership at the consumer-products giant.

Artzt wants results. If he thinks he'll get them by tweaking you in front of your peers, prepare to be tweaked.

Artzt aims to build a tougher, faster, more global P&G. To do so, he is promoting individual accountability—turning back the clock from the "team approach" of recent years. He has overhauled P&G's corporate-training program in favor of a squash-the-competition version (page 56). He has revamped its recently restructured sales force. And he is demanding that managers consistently beat the competition to market with the latest detergents, face creams, and diapers. He sees lightning-quick reflexes as essential at a time when P&G's rivals, too, are globalizing, streamlining, and investing in innovation. Vows Artzt: "We are going to make a quantum leap in the quality and speed of our execution."

Nowhere is Artzt's relentless drive for rapid, forceful marketing maneuvers more apparent than in P&G's overseas

business. To make the company more of a world power, Artzt, the company's international chief for nine years, is pushing it to plan on a truly global basis. It will have its latest diaper innovation, Pampers Phases, on the shelf in 90 countries in fewer than 12 months, compared with the 27 it took the last time Pampers was reworked. Meanwhile, Artzt is lining up foreign joint ventures and investing huge amounts in acquisitions and new production capacity all over the world. P&G is posting double-digit unit gains abroad.

COFFEE RUSH. Artzt, 61, felt the U.S. operation needed shaking up even before he became CEO back in January, 1990. Although its earnings and stock soared that year, as they had in 1989, the company found itself increasingly embroiled in competitive battles at home. In coffee, Nestlé is giving P&G's Folger's a run for its money with the expansion of its Hills Bros. brand into new markets. In bar

soap, Lever Brothers Co. is showering its Lever 2000 with ad dollars, soaking P&G's Safeguard. And while Procter has plunged ahead with a bevy of new products such as concentrated detergents, the recession is dampening consumption of P&G staples. In the first quarter, ended Sept. 30, earnings fell 3%, to \$536 million. It was the first decline in six years.

Most of Artzt's strategies for dealing with these competitive pressures make sense even to his critics. But many inside the company think he is pushing his agenda too hard—and in a most un-P&G-like fashion. Some top employees have left in the past year, and many who remain “feel their behavior is being changed, but their heart isn't being changed,” says one P&G manager. “They don't feel enrolled in the vision.”

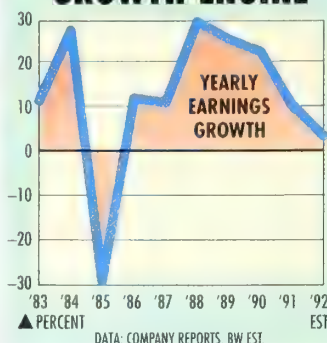
Many staffers worry that Artzt and U.S. Chief Durk I. Jager view employees as mere replaceable cogs. “The thing I sense more than anything is a real fear,” says one manager. It's a far cry from the recent past. Not only were the late 1980s a tremendously profitable period, but they were also a time when P&G began to reinvent itself. Critics argue that Artzt is abandoning many of the progressive changes of that era, which brought a more questioning, multifunctional, people-oriented approach to the business.

“Unfortunately, many of those critics and change agents responsible have either been silenced or have left the company,” says Louis A. Pritchett, who retired as sales vice-president shortly before Artzt took over. Artzt calls the notion “laughable.” The charge that he is operating without regard for his people, he adds, is “totally wrong.”

FRESH WORRIES. Some of Artzt's fearsome reputation is no doubt unwarranted. His focus on financial results makes some see him as short-term-oriented, yet P&G is spending \$400 million this fiscal year on new products, up 50% from the recent yearly average. Its \$2 billion in capital spending is nearly double that of fiscal 1989.

Yet several bursts of bad news tarnished the early days of Artzt's tenure and added to the uneasy feeling that the new CEO may be a little too aggres-

P&G'S SPUTTERING GROWTH ENGINE



sive. Last April, the Food & Drug Administration seized 2,400 cases of P&G's Citrus Hill Fresh Choice orange juice, saying “fresh” was a misnomer. In June, Hintz became the highest-ranking executive to resign from the company in almost 20 years. The most embarrassing incident came last summer: Desperate to track down a leak to a re-

porter, P&G asked for an investigation that led the Cincinnati police to search the phone records of 800,000 people. Artzt first defended the search, but in the end he apologized to employees. Working under Artzt clearly is not for the fainthearted. While he can turn on the charm, says one retired executive, “he'll take you apart limb from limb” in an argument. Another former P&Ger recalls watching Artzt “just ridicule the U.S. business performance” right in front of President John E. Pepper and others. Pepper had just become international chief after overseeing the U.S. operations for years.

Artzt agrees that his emphatic style needs some toning down. “I've developed a greater awareness of my impact on people,” he says. If employees have been afraid of him, Artzt says, “I'm making a real effort to fix that.” Lately

he has been lunching with more middle managers to exchange opinions.

A 38-year P&G veteran, Artzt inherited a company already in the throes of change. His predecessor, John G. Smale, had approved a drastic revamping of the way it sells. Instead of having salespeople for each division tripping over one another, Smale consolidated its sales organization so that far fewer reps called on stores and their owners. The goal: to become more efficient and work more closely with customers. P&G brought in specialists from finance, information, and logistics, for instance, to work directly with their counterparts at Wal-Mart Stores Inc. Such teamwork produced major savings in inventory and better service for a number of P&G's biggest retail customers. The restructuring also cut P&G's costs and allowed it to get new products on the shelf faster.

SPLINTERED TEAMS. Good as that teamwork sounds, the restructuring had serious organizational problems that Artzt had to solve. And he saw a drawback in having sales reps with such a strong emphasis on building ties to retailers. “The natural inclination is to focus on getting aligned, on partnering, making sure the relationship is working—and perhaps not focusing as fiercely on building volume and profit,” he says. So last April, Artzt stepped back from the more radical consolidation. Instead of giving the real clout to someone who would represent all of P&G, he is now relying most on salespeople who represent a sector such as soap or food.

Many retailers, though uncomfortable with some P&G marketing moves, remain enthusiastic about the company because it has become easier to work with over the past few years. But some P&G insiders argue that it will be impossible to realize the considerable potential of partnerships if Artzt forces P&G to return to separate sales forces for each product sector. Efforts to streamline invoices and other systems, for instance, may be stymied by differing practices in each sector.

P&G's “team” approach to decision-making could also get reworked. While creating business teams helped the company rebound from its problems of the mid-1980s by getting representatives from various departments to work together, Artzt has been irritated by the sometimes fuzzy lines of authority in the team approach. “In some cases, he got frustrated by results that weren't as good as he liked and because he couldn't get down to where the

The Artzt Agenda



- Globalize by planning business strategy worldwide
- Demanded results and initiatives then
- Concentrate more on growth and profit, less on internal processes
- Focus on flattening the competition
- Reassert the need for individual accountability; give product teams clear leaders
- Attract and retain top talent by making line managers responsible for recruitment, mandating regular career path discussions

accountability was," says A. G. Lafley, vice-president for laundry and cleaning products. Artzt also objects to teams that endlessly contemplate P&G's internal structures rather than develop new products.

Although he insists he is a proponent of teams, Artzt wants them to have explicit missions and clearer goals for individual team members. Still, some insiders argue that any backing away from the team approach is a big mistake. "Most of the complex issues we deal with in business are way beyond the capability of an individual function to come up with," complains one ad-department alumnus.

DAMAGE CONTROL. One of the most sensitive issues Artzt must deal with is work-force diversity. Some key women and blacks have left within the past year, in some cases frustrated with what they describe as the slow pace of progress. Last summer, P&G had to wage a major damage-control effort when a group vice-president suggested to interns that P&G in the past had lowered its standards to hire some minority managers.



R&D AT P&G: ARTZT IS SPENDING BIG ON NEW PRODUCTS

Artzt has begun trying to improve the company's record in this arena—and success here could do a lot to soften his unfeeling image. Company officials say women and minorities have been rising as fast as or slightly faster than whites and men hired at the same time. Last year, in a first, P&G named five women as vice-presidents, out of 69 who got the

title. Still, Artzt concedes P&G needs to make more progress. He has instituted a system to track minority employees' advancement and hold managers accountable for their progress. P&G claims to be retaining more valued managers by mandating annual career-path discussions. Still, skepticism remains. "We're saying all the right things," says one black manager. "The frustration is, we haven't seen those translate into results yet. And given the bottom-line orientation, I don't know if we will."

Yet Artzt is upbeat. He maintains that his restyled personal approach is winning over employees. He says his focus on global planning and improved execution is beginning to pay off. Unit volume is up, and P&G is increasing U.S. market share in most categories. "I feel good about what's going on in the company," Artzt says. "When all the smoke clears, people are going to say, 'Pretty damned good result.'" He may be right. But in the meantime, the smoke at P&G is getting pretty thick.

By Zachary Schiller in Cincinnati

READY, AIM, MARKET: COMBAT TRAINING AT P&G COLLEGE

Procter & Gamble Co. has long been known as one of the best training grounds in business. Its marketers, researchers, engineers, and salespeople have trampled competitors. Its alumni have staffed rivals' ranks by the hundreds, much to its chagrin. Given that record, you might not think P&G needs a whole new corporate training regimen. But that's what Chairman Edwin L. Artzt started in December.

The program's official name is P&G College, but Artzt calls it "combat training." A roll call of top management, including Artzt, conducts the classes. Like almost everything else he has implemented since becoming chairman two years ago, the program is designed to help slay the competition.

That makes P&G College sharply different from the training it replaces, a popular leadership program run by management guru Stephen R. Covey. The Covey plan stressed building trust and teamwork, as well as knitting together employees' private and business lives. But P&G concluded that its primary corporate training "ought to be more focused outwardly on the marketplace, on the consumer, on the customer, on the competition," says Senior Vice-President Benjamin L. Bethell.

The new training gives Artzt "a chance to imprint people as they enter the system," says University of Michigan business school Professor Noel M. Tichy, an adviser to P&G College. New hires will spend three or four days at P&G College in their first year. There are also courses for first-time managers and higher-level managers. Altogether, some 4,000 employees a year

Under Artzt, the program has become less humanistic and more win, win, win

from every function and location will attend sessions on such subjects as The Art of Competitive Defense and Developing People Who Produce.

No matter what his or her job, each manager will get a quick apprenticeship in the discipline Artzt sees as crucial to P&G's business—advertising. Reflecting Artzt's view that too much price discounting erodes the value of P&G brands, P&G College will also teach

managers to think about how such promotions can hurt a product's image.

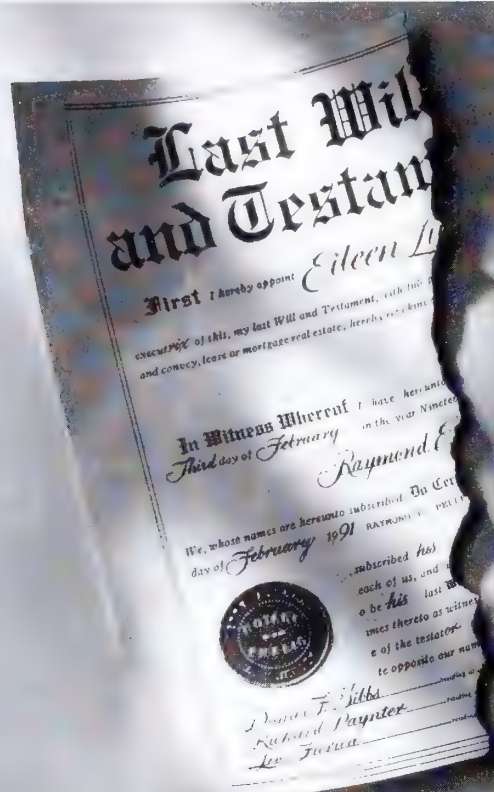
Much of the training examines past successes and failures. In one course, President John E. Pepper recounts P&G's flop in the 1980s with a scalloped soap called Monchel. Because of its unusual shape, fragrance, and package, it won blind tests P&G conducted. But the product worked no better than its intended rival, Lever Brothers Co.'s Dove. "We didn't really develop superior performance in the area that counted," says Pepper.

BLUNT MESSAGE. Crest brand manager Christopher T. Clark, who just attended a three-day P&G College session, calls the experience "tremendously positive." He got to interact with some of the company's top executives, and he came away from the meetings with the message Artzt wants: "There's a focus on needing to win in the marketplace and the components that really drive that," he says.

Pepper, long a fan of the Covey training, says P&G will find other ways to relay that program's softer-edged messages to employees. But that can wait. In the meantime, Artzt is readying the troops for war.

By Zachary Schiller in Cincinnati

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WHAT'S HAUNTING THE HOUSING INDUSTRY

There may not be enough buyers—low mortgage rates or no

Charles Rutenberg can hardly wait for the end of the Super Bowl. The Florida-based homebuilder laments that "the football playoffs and Super Bowl are death to home selling," since many would-be buyers spend weekends in front of their television sets instead of searching for a new home.

Competition from football, however, is the least of the problems facing homebuilders. True, housing is in an upswing, but the recovery is so muted that some developers haven't noticed. The lowest mortgage rates in 18 years have lifted refinancings to new highs, yet they are spurring little demand for new housing.

Homebuilding began to climb out of the cellar about a year ago. But even so, 1991 was the worst year for housing in the postwar era. With an annual rate of 1.1 million homes started in December, new construction for 1991 stood at about 1 million, down 17% from 1990. Starts aren't expected to rise much over 1.1 million this year and to only 1.2 million in 1993 (chart). Builders were much busier after the last two severe recessions, in 1973-75 and 1981-82. Both times, housing starts soared at an annual rate of 30% in the first two years of recovery.

What's gumming up housing's prospects? Fewer new households are being formed, credit remains tight, and developed land is in short supply. Add to that the glut of apartment buildings, plus consumer worries about incomes and jobs, and it isn't hard to see why the new-housing market is soft.

"Demographics make a powerful argument against a housing recovery,"

says David H. Resler, chief economist of Nomura Securities International Inc. He points out that the U.S. adult population isn't growing as fast as in the previous two decades. In the 1970s, the first wave of baby boomers became adults, raising the number of new household formations to 1.7 million a year. And in the 1980s, household formation averaged a solid 1.3 million a year. But only about

who make up the bulk of first-time home buyers, earnings are only \$27,394.

At the same time, the Federal Housing Administration—a source of mortgages for lower-income families—has tightened its lending standards, so buyers need more cash up front. The 1990 move was in response to losses in the FHA insurance fund. Falling prices meant that some borrowers owed more on their home than the home was worth. So, many people defaulted on their mortgages. Under the new FHA rules, buyers must pay 43% of their closing costs, which on average means an extra \$800. Previously, they could fold those costs into the mortgage. Also, if the buyer has a small downpayment, the FHA charges a higher mortgage-insurance premium than in past years.

For buyers who go the private-financing route, the upfront costs are even more daunting. Using the rule of thumb that closing costs and points equal 6% of a mortgage, first-time home buyers who want to put a 20% downpayment on a new home with the median price of \$117,400 need \$30,000 in cash even before selecting their furniture and color scheme.

CASH POOR. The current low mortgage rates also won't sway consumers who are worried about layoffs. "With uncertainties on the job front, people are not willing to take the risk of buying a home, even if [a lower rate] means saving a few hundred dollars a month," says David F. Seiders, chief economist of the National Association of Home Builders.

Builders have their own money woes. The credit crunch—the difficulty in getting bank loans—affected small

companies more than large corporations. And since homebuilders are mostly small companies, they have felt the impact more than most industries. "Certainly, there has been a tightening of credit standards," notes the NAHB's Seiders, "and I think it will stick." Lending is tightest in New England, Florida, and California, Seiders says.

Developer Rutenberg knows the credit crunch firsthand. "We cannot get good



1.1 million new households will be created this year, a middling growth rate that will continue for most of the 1990s.

And these members of the so-called baby-bust generation face a housing market that is out of reach for many. The National Association of Realtors' index of housing affordability stands at its highest level since 1974. But the NAR uses the national median family income of \$36,500. For those in their late 20s,



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loans," complains the builder. He says his company must build "out of pocket," selling a few homes and then using that cash to build more houses. He does admit that this abridged homebuilding has a silver lining. "We're selling fewer homes, but we get a better return because we can pocket the financing costs [that the bank would have collected]."

But for others, the lending vise has squeezed them out of the business. The NAHB reports that its membership has slipped by about 4% in the past year. And economists and others in the housing industry expect more builders to pack up their tools. Despite the falloff in housing activity over the past decade, the number of those employed in residential construction—about 500,000 workers—has hardly dropped at all. By one estimate, one-third of homebuilders could call it quits without hampering construction in coming years.

In addition to scarce credit, builders also face a paucity of land. Because of last year's credit crunch, land developers—companies that put roads and sewage and water systems on undeveloped land—also had problems getting money. As a result, the NAHB says there is a shortage of finished lots.

MULTIVACANCY. There is no shortage of apartment buildings, however, and that also clouds the outlook for builders. "Multifamily construction has been slaughtered by overbuilding," says Roger Brinner of DRI/McGraw-Hill. Tax breaks and easy financing in the 1980s boosted apartment construction, Brinner says. And now, some of those projects stand empty. In the third quarter of 1991, the vacancy rate of rental units—mostly apartments and condominiums—was 7.6%, up from 7.2% a year earlier. The biggest overhang is in the South, where the vacancy rate is 8.8%.

Certainly, the mid-January pop in long-term rates offers no solace to the construction sector. The average rate on a 30-year fixed mortgage jumped by 0.2% in one week, to 8.53%, according to HSH Associates. Although economists expect rates to resume falling, the volatility adds to uncertainty in the industry.

The Washington proposal of a \$5,000 tax credit for first-time home buyers will help in the long run, but such a tax break could backfire in the first half of this year. "If you tell people that it may happen, you may discourage activity in the short run," warns Neil M. Soss, chief economist at First Boston Corp., because consumers would wait to take the credit.

That's sorry news for builders facing an uncertain winter. And if the economy doesn't pick up in the spring as expected, even this modest housing recovery could soon fizzle out.

By Kathleen Madigan in New York, with Christina Del Valle in Washington

Government

THE WHITE HOUSE

SAM SKINNER: TIME ISN'T ON HIS SIDE

He must somehow get Bush's staff into fighting trim—and fast

Top executives of the American Medical Assn. didn't know what to expect last month when they met with new White House Chief of Staff Samuel K. Skinner. The last time they had visited the White House, his predecessor, John H. Sununu, pounded his desk and screamed at them. By embracing health care reform, Sununu fumed, the doctors were undercutting the President's desire to slow the election-year rush for federal action.

Now, Skinner, well versed in the politics of health care, was calmly outlining an Administration plan that was music to the AMA's ears. It prescribed new incentives for people to enroll in group health plans, tax credits for the uninsured to buy coverage, and restrictions on medical malpractice suits. The package would be unveiled as part of the President's 1992 domestic agenda. But first, Skinner said, he wanted to know what they thought. The doctors were stunned. "It all sounded pretty good," says Dr. James S. Todd, executive vice-president of the AMA. "We had a very relaxed exchange of views."

This turnabout is just a small example of the changes in style under way at 1600 Pennsylvania Ave. since Skinner took charge on Dec. 16 (table). Where engineer Sununu terrorized subordinates with his intellect, Skinner—a lawyer and onetime IBM salesman—fills staff meetings with motivational pep talks and calls for teamwork. Where Sununu was a conservative ideologue, Skinner searches for pragmatic solutions to problems. And where Sununu favored a just-the-facts analysis of proposals, Skinner is a schmoozer, often using a joke or an old story to make his point. Says one incredulous senior White House aide: "He's a real rah-rah kind of guy."

THE RIGHT STUFF? The changes are coming none too soon. The economy remains mired in a slump, and the President's approval rating has sunk below 50%. Bush's recent trip to Japan was a fiasco. And in New Hampshire, Patrick J. Buchanan has a good chance to embarrass Bush in the Feb. 18 primary. Some of the blame must go to Sununu: He believed that the President could be re-

elected without promoting a bold domestic agenda. And he barred the discussion of some issues, such as health care.

Skinner is no fountain of ideas. Rather, friends say, he's a "gut-level operator." Scratch the 53-year-old former Transportation Secretary hard enough and you'll find a manager who bears the mark of his seven years at IBM during the 1960s, where he once was "Outstand-

NEW AT THE WHITE HOUSE

SKINNER'S RULES

BE INCLUSIVE

Solicit views from many sources. 'I produces a better product'

PROCESS THE INFORMATION

Bounce those ideas around. Skinner favorite sounding board: his 87-year old mother, who watches CNN and reads four newspapers a day

PUSH FOR TEAMWORK

Pettiness, bickering, personal aggrandizement are unacceptable conduct. 'If you do it here, you will be shunned.' Skinner's model: Lou Holtz Notre Dame's football coach

REMEMBER THE GOAL

Make sure everyone is 'pulling together for the principal's benefit'

DATA: BW

ing Salesman of the Year." Skinner's motto: Figure out what the boss wants, and act accordingly. "Everyone here has to put personal desires aside to give the President the best product," Skinner told BUSINESS WEEK. R. Eden Martin, chairman of the management committee at Sidley & Austin, the Chicago law firm where Skinner was a partner, says the Chief of Staff "has a way of making

people feel they are part of a collective enterprise. Sometimes he gives credit to people maybe more so than he should."

But even if Skinner is everything Sununu isn't, is he enough? Can a nice guy make it in a place like the White House? The center of government is no Transportation Dept.—it's much tougher than Skinner imagined. Aides jealously guard their position and turf. And Skinner has already locked horns with the remaining powers, chiefly Budget Director Richard G. Darman. Skinner has had to apologize for a few missteps, such as suggesting that a six-day workweek wasn't enough. Yet these are early days. And Skinner is only now being tested, as President Bush readies the Jan. 28 State of the Union speech that will set the tone for his reelection effort (page 20). Although Skinner is not officially part of the reelection team, he controls the President's schedule and has a key role in formulating political strategy. Here, his 16-year friendship with Bush campaign

But Skinner faces a huge managerial challenge at the White House. Sununu, along with Darman, ran the place with disdain for most other members of the Administration. Policy councils set up to give Cabinet Secretaries a forum to air ideas fell into disuse. Many units, such as the Political Affairs Office, are still in the hands of stalwart Sununuites. And despite the recruitment of new talent, the speechwriting staff continues to churn out forgettable mush.

Perhaps the worst problem is the organizational pyramid Sununu created. The former staff chief concentrated power in very few hands and relied on relatively inexperienced aides in many critical jobs. Critics derided the system as "one executive and a thousand interns." Says one seasoned GOP pol: "Sununu treated the White House staff like children—and he pitted them against each other. Now that he's gone, they are paranoid about losing their jobs. Skinner's in for a hard time."

when Skinner became Transportation Secretary in 1989. There, Croisant acted as chief operating officer, matching people with jobs and enabling Skinner to develop a national transportation policy quickly.

Croisant does not have such latitude at the White House, however, where the President makes the decisions. Still, Croisant's study targets two key areas: communications and domestic policymaking. It will call for consolidating the speechwriting, public liaison, and media shops into one operation. The goal: better coordination with agencies in promoting Bush's policies and more effective use of Cabinet heads as campaigners.

In a more substantive vein, Skinner will create a staff position to coordinate domestic policy. The intention: to revitalize the Cabinet-level domestic and economic policy councils, weakening Budget Director Darman's grip. Among the rumored candidates for the job is Robert Zoellick, one of Secretary of State James A. Baker III's most trusted aides.

HAMSTRUNG. Yet shuffling the organizational chart can only go so far. Friends worry that Skinner won't be able to put his own people in key posts because political advisers don't want a major staff shakeup with the reelection effort under way. "At DOT, Skinner built his own team. Here, he inherits a staff at a very critical time," says Croisant. "He can't afford wholesale change."

And while GOP pros regard Skinner's style as a welcome breath of air, his openness could hurt him. Bush media adviser Sigmund Rogich pays Skinner a double-edged compliment: "He is a man you can say 'no' to." Another senior Administration official is more blunt: "Sununu had a leadership quality that Sam Skinner lacks—a strong intellect and a strong philosophical approach to governing. That compelled loyalty. Sam is getting neither admiration nor loyalty."

With Darman bitterly resentful of his loss of power, a recalcitrant team wary of change at the White House, and a President who remains reluctant to go beyond a modest domestic agenda, Skinner has his work cut out for him. "I haven't worked this hard since I tried Otto Kerner," he sighed recently, plopping into a chair in his office. As a U.S. Attorney in Chicago, Skinner made his name with the 1973 conviction of Kerner, a federal judge and former governor of Illinois, on corruption charges. The trial earned him the nickname "Sam the Hammer," and a souvenir silver hammer hangs in his White House office today. Good thing. Skinner may soon find that he needs it. At a time like this, he knows that the last thing Bush can afford is a fumbling White House.

By Douglas Harbrecht, with Seth Payne, in Washington



SAM SKINNER
MANAGER
NER

strategist Robert M. Teeter will help. Sununu and Teeter were fierce rivals.

Skinner also may make a difference on Capitol Hill in the upcoming battles on tax and spending priorities. He is close to such Democrats as House Ways & Means Committee Chairman Dan Rostenkowski (Ill.) and House Energy & Commerce Committee Chairman John D. Dingell (Mich.).

Can Skinner patch things up? He is about to remake the hobbled domestic-policy operations and mesh them with the President's reelection effort. His blueprint is based on a two-month study of White House management by Eugene R. Croisant, executive vice-president of human resources at RJR Nabisco Inc. Croisant, who is an old friend of Skinner's from the '60s, played a similar role

RUNNING A BUSINESS IN THE SHADOW OF AIDS

Marketer Sean Strub, HIV positive, makes huge changes in his life and career—but keeps working

Last year, for the first time in more than a decade, Sean O'Brien Strub had to borrow money from his family to make ends meet. Strub's New York direct-marketing firm had run into a cash-flow problem, and his suppliers were suddenly denying him credit. Their explanation was the crummy economy, which Strub concedes may have been a factor. "But in a couple of cases, the issue clearly was my health," he says. Strub has HIV, the AIDS virus.

This is the story of how one businessman has come to grips with HIV. It's the story of how the virus has changed his outlook on business, and how the specter of AIDS affects his enterprise in ways that he can't control.

TERRIFYING TRUTH. Strub, 33, is one of an estimated 1 million Americans infected with HIV. Of that number, there's no telling how many are corporate leaders or entrepreneurs. Strub would have preferred to keep his condition a secret, too. But in the tightly knit direct-marketing community, where Strub has done work for everyone from the Boy Scouts to the most militant AIDS activists, word has a way of getting around.

Strub was certain he had HIV the first time he read about the virus back in 1981. The appearance of symptoms, such as shingles and other rashes, confirmed his fears a few years later. Since then he has sorted out—sometimes in painful and costly ways—which channels for his energy and initiative will reward him best. "I've been in a hurry ever since I left the womb," he says. "This has forced me to prioritize my life and career goals and focus on what kind of business I want to be in." Two years ago, that included a run for the U.S. House of Representatives from suburban Rockland County, N.Y. Strub got 45% of the Democratic primary vote to his opponent's 55%, and though he never mentioned having HIV, he says he would have if asked.

Today, he works out of a tidy Manhattan office whose walls carry "Safe Sex" signs and a clock with the warning: "One AIDS death every 20 minutes." Not

that he needs reminding. He's in basically good health at the moment, but Strub has twice had shingles, a few other skin ailments, and a couple of cases of encephalitis. "I've had a few good scares," he says matter-of-factly. At the moment he is taking AZT, a drug supposed to block the virus from multiplying. Then there are vitamin supplements, the antiviral drug Zovirax, and antibiotics for a strep infection in his heart. His regimen also includes less orthodox treatments such as massage therapy and visualization. "With visualization, you see the HIV virus as this evil character," he explains. "You visualize T4 cells as knights in shining armor, and they go beat 'em up."

Hard as it is to confront your own mortality, the most difficult part of the disease has been its effect on the people around him. "Some very close friends got so freaked out they've withdrawn from my friendship," he says. "I get occasional check-in calls from them, but basically I've lost them as friends." Business relationships take on an uneasy air as well. "If I cough on the phone or miss work with a cold, I know they're thinking I could go any minute."

While his doctor concedes that's a possibility, Strub is determined to live long enough for someone to find a cure. Smart "lifestyle" choices—such as eating carefully and not dwelling on the disease—go a long way toward keeping him healthy. So does his job. "It's exquisitely important to maintain a normal, busy life," says his doctor, Josh Torgovnick. "The single most important thing to avoid is unnecessary worrying about the virus."

A busy life is nothing new for Strub. Growing up in Iowa City, the son of a propane marketer, he was the industrious boy who had two paper routes, shoveled walks for money, and arranged sprawling garage sales that would attract hundreds of buyers. He was also, as he remembers it, "different from the other kids—never totally in sync." In his early teens, he recognized that he was

Strub now spends 90% of his time on gay and AIDS-related issues: 'There's more than a little self-interest involved. These groups may affect how much longer I survive'



gay. Years later, he publicly acknowledged his homosexuality while at Georgetown University.

Strub's career as a direct marketer took off before he could finish school. Pitching in on state and local political campaigns, he found that when he wrote letters asking for money, people actually sent it in. Between campaigns he sold his expertise to companies and nonprofits, and his firm, now called Strub Media Group Inc., was born.

When Strub started out, gay and AIDS-related fund-raising represented less than 10% of his work. These days, it's more like 90%. "There's more than a little self-interest involved," he admits. "These groups may affect how much longer I survive." A hallmark of the firm has always been its inventiveness. Working on Ann Richards' 1990 campaign for governor of Texas, Strub sent out 38,000 letters urging Democrats to join an "automatic giving program," where every month her campaign would charge a donation to their credit card. The unusual program generated close to

\$20,000 a month for the campaign. "Sean does breakthrough stuff," says direct-mail consultant Denison Hatch. "A lot of fund-raisers outside the gay community could learn a lot from this guy."

At its peak, Strub's business had 15 employees and revenues of around \$4.5 million. But the '80s were a period of no small pain. Hundreds of friends, including several employees and three live-in lovers, succumbed to AIDS. Strub's last live-in companion became ill during Thanksgiving dinner with Strub and friends in 1988. He went to the hospital the next day and within 10 days he was dead from AIDS. Not long after, Strub tried to sell his company to an employee. But they argued over the price, and she left to start her own firm. To his dismay, most of his clients went with her, and Strub's firm folded.

Starting over gave Strub a chance to reevaluate his entire approach to business. His thinking centered on the sad fact that he could die at any moment—and that he would like to leave behind a valuable estate for his five siblings. In

order to make the firm less dependent on his personal involvement as a consultant, he's concentrating on businesses that could survive without him, including a small publishing enterprise, a mail-order drug outfit, and a business that collects and sells mailing lists.

HOMOPHOBIA. At the same time, Strub is trying to take it easy on himself. While he's never short on creative ideas, he is the first to admit he's not much of a manager or a detail person. With that in mind, he's no longer putting himself in a position where he has to manage so much: Strub Media Group has just three employees and sales of around \$1 million. Aware that stress is bad for his health, Strub also is trying to get a handle on his furious temper. "He has mellowed tremendously, and I'm glad about that, because he was on a short fuse," recalls list broker Andrew Harwin.

Strub has had much to be enraged about over the years. In addition to worrying about finances and other entrepreneurial concerns, he has also confronted homophobia and irrational fears about AIDS. Back in 1984, when he was working on the first direct-mail campaign for New York-based Gay Men's Health Crisis Inc., a New Jersey letter shop he hired to handle the job took one look at the mailing and refused. "The manager called me and said, 'We wouldn't do pornography, either,'" Strub recalls. "Then he said, 'The Dominican ladies who stuff our letters are worried about getting AIDS.' I don't think he ever asked them." The letter shop is now out of business, and efforts to reach the owner failed.

Other problems are more understandable, though no less troubling to Strub. He knows getting a bank loan for his firm is all but out of the question—unless he wants to deny having HIV. Health insurance, too, is a major headache. Like many business owners, he's unhappy with the sharply escalating rates he's paying. But now that he and other employees have started filing HIV-related claims, "I don't know that he could get insurance anywhere else," says his insurance agent.

Faced with such constant reminders of his condition, sometimes it's hard to look past today and imagine himself living tomorrow. But he's getting the hang of it. Says Strub: "You can only live assuming you're going to die tomorrow for so long." He's co-authoring a book on Corporate America's handling of gay and lesbian rights. He is trying to produce an off-Broadway play about an AIDS activist. And he recently joined the planning committee for Unity '94, a sort of gay Olympics coming up in two years. "You know, that's pretty good," he says with a laugh. "I can conceive of being alive in 1994."

By Peter Finch in New York



GRABBING FOR THE OLD MAGIC AT YOUNG & RUBICAM

It's determined to regain its '80s flair—and hold on to key clients

Ask Alex Kroll about baby oil and he turns almost mournful. The chairman of Young & Rubicam winced last August when Johnson & Johnson yanked the ad accounts for its baby oil and powder from his shop in favor of Lintas, a rival agency. At \$15 million in billings, the loss was modest. But the accounts were a memento of J&J's six-decade relationship with Young & Rubicam Inc.: "Baby oil runs in the veins of our people," says Kroll.

It has been that kind of year for the country's largest advertising agency. Y&R hasn't suffered the financial meltdown of Britain's Saatchi & Saatchi and WPP Group. But the recession has brought a steady stream of bad tidings. Such big clients as American Telephone & Telegraph Co. have slashed their ad budgets while others, such as J&J and R. J. Reynolds Tobacco, have shifted some business to other agencies (table).

The result is a perception on Madison Avenue that Y&R has lost its touch. The agency's malaise stumps many who still remember Y&R's formidable reputation in the 1980s, both for the creative panache of such campaigns as its ads featuring the ubiquitous Merrill Lynch bull and for its enviable record of landing juicy accounts. The agency hasn't won a significant new account in the U.S. since it bagged the \$40 million Xerox business back in July, 1990. And despite a new creative director in its flagship New York office, its ads are regarded as stodgy.

SHAKEUP. Kroll points out that smaller and overseas account wins brought Y&R \$650 million worth of new billings last year. But that 8.5% gain was wiped out by lost accounts and reduced spending by existing clients. Y&R's global billings and revenues in 1991 were flat at \$7.5 billion and \$1 billion, respective-

ly. The agency won't disclose profits. But Kroll says: "I'm not pleased. How could you be?"

Now, Kroll is determined to jolt Y&R out of its lethargy. He is pursuing a two-pronged campaign to upgrade customer service and restore creative luster. The first task is by far the easier: On Jan. 14, he unveiled a shakeup that makes top executives—including Kroll himself—directly responsible for major accounts. "To me, the solution was: Strip the hierarchy, and aim everybody toward the clients," he says.

Kroll acknowledges that several clients have made it clear they would like more attention from agency top brass. By forging such bonds, Kroll hopes to rekindle the affection of such clients as J&J and Reynolds. The agency was

stunned in October when the tobacco giant shifted the creative part of its Camel cigarette account to Mezzina/Brown, a tiny shop started by two former Y&R creative executives. Reynolds says it wanted to retain the services of the two, who helped popularize Joe Camel, the brand's highly successful, albeit controversial, mascot.

'SHORT SHRIFT.' In many ways, Kroll is applying the same recessionary marketing technique to Y&R that his clients are using: Hold on to your customers, since new ones are much harder to come by. Indeed, some notable Y&R clients are applauding the shift: "We regard this as a positive step for us," says Robert Watson, director of advertising services at AT&T. The company trimmed media spending 30% in the first nine months of 1991, according to Leading National Advertisers. Although Watson doesn't criticize Kroll individually, he says many big-agency executives began neglecting their clients in the 1980s as they concentrated on mergers and acquisitions: "In many cases, the clients were getting short shrift."

That's not likely to happen to AT&T anymore. To underscore his urgency about service, Kroll says he'll personally handle the AT&T and Colgate accounts.

That means he'll help to choose staffers for the accounts and speed up the production of ads. Kroll, a former copywriter, will even delve into the nitty-gritty of AT&T's ad campaigns. "The management has to commit their own blood," he says.

The care and feeding of AT&T and Colgate aren't the only new items in Kroll's job description. In mid-January, he removed one of his closest colleagues and onetime college football opponent, Joseph E. DeDeo, as president of Y&R's core ad agency. The agency now reports directly to Kroll, who as chairman of the holding company also oversees Y&R's direct marketing and public-relations units. The day after the shakeup, Y&R confirmed a layoff of 45 New York staffers, or 3.8% of the agency's 1,192-person flagship staff. "I believe Y&R can play better with fewer, better people," says Kroll.

Although DeDeo lost a plum operating title, he has hardly been put out to pasture. He is now chief creative officer, and his mandate is to



CHAIRMAN KROLL: "MANAGEMENT HAS TO COMMIT THEIR BLOOD"

A BUMPY RIDE FOR Y&R

Key account moves in the last 18 months		Annual billings (Millions)
RESIGNED	TRANS WORLD AIRLINES	\$45
LOST	R.J. REYNOLDS' CAMEL CIGARETTES	30
	JOHNSON & JOHNSON BABY OIL, POWDER, AND LOTION	15
WON	NINTENDO (EUROPE)	30

DATA: COMPANY REPORTS, ADWEEK

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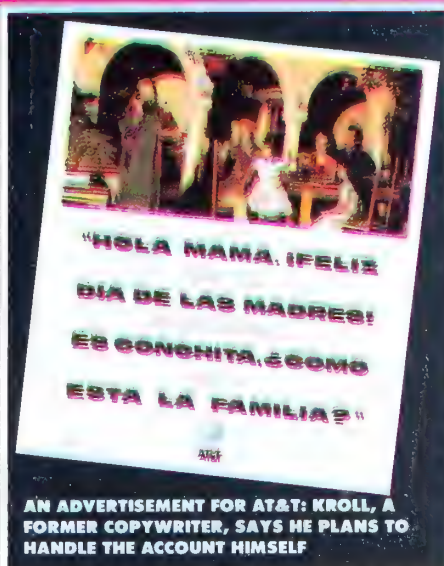


Marketing

ise the standards of Y&R's creative output around the world. That's a tall order, even for DeDeo, who earned his stripes by turning Y&R's European and Australian units into creative powerhouses. DeDeo says he asked Kroll for the job. And he feels Y&R is still producing "first-rate and competitive work."

Still, observers and former Y&R executives agree that the agency hasn't produced much memorable advertising in recent years. Y&R's work tends toward the mainstream: the U.S. Army's long-running recruitment campaign, for example. In the past, Y&R was known as the best of the big packaged-goods agencies," says Clay S. Timon, who worked closely with the agency until 1990 as director of worldwide advertising for Colgate before becoming a consultant. "Now, it is better than the average."

That assessment is all the more puzzling since the people who vaulted Y&R's creative prominence are still largely in place. Kroll himself ran the New York creative department, writing such campaigns as "The Wings of Man" for Eastern Air Lines Inc. And there's new blood, too: In late 1990, DeDeo hired Hevyn Spivak as creative director for the New York office. A 39-year-old copywriter



er from Hal Riney & Partners Inc., her witty campaigns include the Schweppes ads with comedian John Cleese.

But Spivak's presence hasn't helped Y&R's flagship office snare much new business yet. Last year, the agency competed for the \$20 million Weight Watchers International account but lost out to Earle Palmer Brown. And it teamed up

with a subsidiary agency, Wunderman Worldwide, in a bid for the \$60 million American Express Green Card account that failed, even though Wunderman handles other AmEx business. DeDeo concedes that the flagship shop has been in a slump but predicts it will rebound.

MASTER PLAN. For her part, Spivak, who started her working life as a secretary and aspiring actress, says she pays little heed to critics who assert she has yet to put her imprint on the New York office. She insists she is only in the second year of a three-year plan to rejuvenate the department. Spivak points out that she has hired David Harner and David Johnson, a sought-after team who worked on the flashy Pepsi ads at BBDO Worldwide. "In the third year, things will come together," she predicts.

Three years may seem like an eternity in the 30-second world of advertising. Yet Kroll says he is pleased Spivak is taking a measured pace: "Nobody believed this would be as easy as walking from Macy's to Gimbel's," he says. Indeed, if Spivak can help recapture Young & Rubicam's creative elan, Kroll will consider it well worth the wait.

By Mark Landler in New York, with bureau reports

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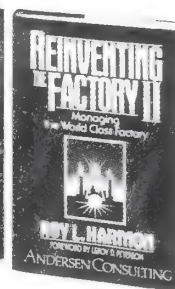
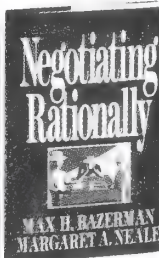
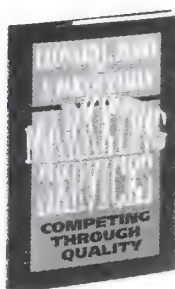
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AMERICAN PAMPERS ITS FIRST-CLASS FLIERS WITH SHEEPSKIN-AND-LEATHER SLEEPER SEATS

THE AIRLINES GET OUT THE GOOD CHINA

Carriers pile on amenities, hoping travelers will pay more for them

The spirit of airline competition in the 1980s was probably best captured in 1988, when Robert L. Crandall, chairman of American Airlines Inc., issued his ruling on olives: Get rid of them, he said. Leaving them out of salads saved \$40,000 a year. But take a look at competition Nineties-style: For \$2,650 round-trip, first-class passengers on American's newly revamped New York-Los Angeles route will recline in sleeper seats while watching movies on personal four-inch video screens. Travelers on American's new business class will pay \$1,996 round-trip to dine on fine china and adjust leg rests at the touch of a button. And in both of those classes, sheepskin-and-leather seats will coddle fliers. Says Senior Vice-President for Marketing Michael W. Gunn: "We think service is in."

He's not the only one. Having lost roughly \$2 billion last year, U.S. carriers are desperate to raise domestic fares—and some are advancing the dubious notion that better service will make

higher fares more palatable. American, Northwest Airlines Inc., and other carriers are plugging amenities to entice travelers to pay more. Trouble is, corporations caught in the grip of recession are cutting budgets to the bone and making executives fly cheaper—when they fly at all. But airlines, having suffered huge losses competing on price, are determined to focus on service.

Most major carriers are getting in on the act. American spent \$13 million reconfiguring 10 planes so it can charge stiffer premiums in first and business class on transcontinental flights. United Airlines Inc. recently introduced its Connoisseur, or business, class on four domestic-only routes. And when their planes with three-class cabins equipped for international travel fly domestic laps, both United and Delta Air Lines Inc. demand premiums for the fancier service. Northwest says it will spend \$450 million by 1995 for new interiors, service-training classes, and an in-flight entertainment system called WorldLink.

Northwest hasn't tied WorldLink to any fare hike, but Executive Vice-President for Customer Service Joseph Leonard says: "We believe people expect quality and that they'll pay extra for it."

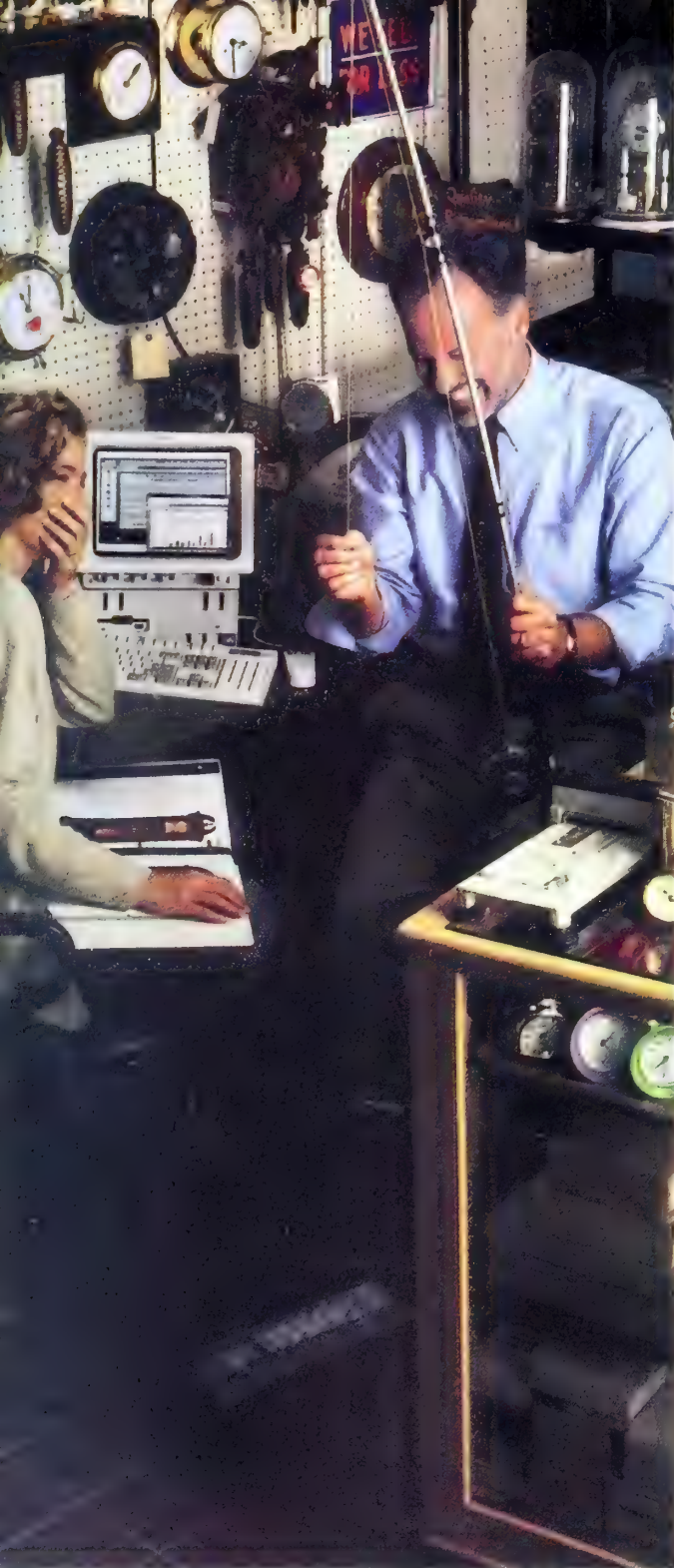
Not that discounting is a thing of the past. On Jan. 11, Trans World Airlines Inc. slashed prices for business-class fares on transcontinental flights to \$550. United and then Delta followed suit. American cut its coach fares, too, but held the line on business-class seats. Most analysts, however, agree that the days of all-out fare wars are over. That's because most of the low-cost airlines are gone or in bankruptcy, and aside from such small, short-haul carriers as Southwest Airlines Co., the only airline left that is trying to win market share by cutting fares is debt-burdened TWA. "The battle for position between United and Delta and American can't be done on cost," says transportation specialist Harold Sirkin of Boston Consulting Group. "It's got to be done on service."

Much of the action will center on business travelers. Roughly 50% of all domestic passengers are on business, but 80% of those are flying on discount fares, says Lee Howard, president of Airline Economics Inc. Even a one-percentage-point conversion to full fare would mean an additional \$1 billion in revenue for the industry, he says.

NORTHERN EXPOSURE. The airlines are beginning with markets where they think passengers will be most willing to pay higher fares for better service. Last November, Northwest introduced its Fastrak program to lure business travelers aboard its shuttle flights between Minneapolis and Chicago. Besides express check-in and the use of fax machines in the terminal, the airline promises to telephone your associates if your plane will be delayed. Northwest is charging a hefty \$647 round-trip. That's the same as United, the only other carrier regularly serving this route. Northwest says it will introduce the service on other routes if it proves popular.

Travel-industry executives applaud the attempts to raise fares through improved service. Gordon D. Lambourne, a public-relations director at Marriott Corp., notes that Marriott has its own version of business class with "concierge floors." He says the airlines' new programs will appeal to executives weary of the hassles of flying coach. There's only one problem: His company allows executives to fly business class only when traveling overseas. If enough corporations share that policy, carriers may find that improved domestic service—plus higher prices—equals more empty seats.

By Andrea Rothman in New York, with Kevin Kelly in Chicago and bureau reports



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MUTUAL-FUND HOUSES START TO HEAR FOOTSTEPS

Now, banks are offering their own funds—and the threat may be stronger than the industry thinks

For much of the 1980s, banks watched somewhat helplessly as mutual-fund houses and brokerage firms siphoned off their customer deposits into money-market funds. By the mid-1980s, banks were bolstering ties with their customers by forming partnerships with mutual-fund houses and inviting them into their branches to sell a wide array of funds. Now, banks are taking a step that could have ominous consequences for the mutual-fund industry: They are rolling out their own in-house funds and starting to go head to head with established funds.

So far, the industry doesn't seem to have much to lose sleep over. True, more than 100 banks offer some 460 different proprietary mutual funds, up from 113 offerings in 1986 (chart). And bank funds have assets of more than \$65 billion, more than double the amount five years ago. But those numbers pale next to the \$1.4 trillion in overall mutual-fund assets and the overall universe of about 3,500 funds.

The battle, however, is still in the ear-

ly stages. In recent months, banks have been stepping up their marketing efforts. As the yields on certificates of deposit decline, bankers see offering their own mutual funds as a way to maintain a relationship with customers they might otherwise lose to competitors. "When banks offered money-mar-

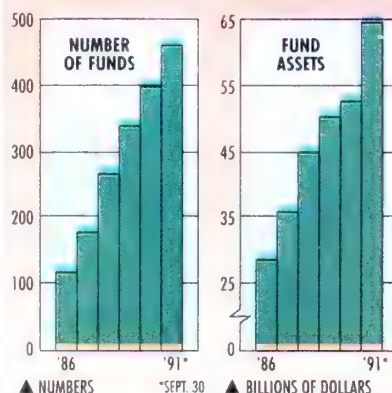
ket accounts in 1982, we had substantial outflows," says Donald E. Farrar, an executive vice-president with Benham Management Corp., which runs \$8.5 billion in mutual-fund assets. "We take bank competition very seriously."

Banks have a key strategic advantage: the unparalleled power of their distribution network. Some fund groups say that 20% to 30% of their sales are made through bank branches.

'RUBE GOLDBERG WAY.' Yet banks suffer from a serious handicap, stemming from the Glass-Steagall Act of 1934, which erected barriers between commercial banking and most investment functions. While banks can manage fund portfolios, they can't underwrite or distribute mutual funds. "Banks have a tremendous customer base," says Carl Frischling, a securities lawyer with Spengler, Carlson, Gubar, Brodsky & Frischling in New York. "The key question is how can you get to it legally, and how can you service it?"

To comply with current law, banks have had to devise a variety of circu-

BANKS ARE PUSHING HOUSE-BRAND FUNDS



DATA: LIPPER ANALYTICAL SECURITIES CORP.

tous and cumbersome arrangements. "It's like saying the mutual-fund industry gets to drive its car directly, and the banking business has to drive with three sidecars and operate in a Ruben Goldberg way to do the same thing," notes banking consultant Edward E. Furash, president of Washington-based Furash & Co.

Yet these arrangements haven't materially hampered determined bank fund sellers. Take Citicorp, which markets its own Landmark Funds. Citi manages the funds' portfolios. But it uses an unrelated firm, Landmark Financial Services, to underwrite and distribute the funds. Initially, the bank used employees of Landmark to sell the funds in Citi's branches. Last spring, it took more direct control of the sales effort by putting 140 Landmark brokers on the payroll of a Citi subsidiary.

Currently, Citibank is mounting one of the most successful and aggressive fund-marketing campaigns by a bank. In the New York City area, where the campaign started, Citi's Landmark funds pulled in \$800 million in assets from last April through December to reach the \$2 billion mark. That's in contrast to the \$1.3 billion runoff in Citi's \$19 billion portfolio of CDs. An additional \$850 million flowed into the other 650 competing mutual funds that Citi makes available—and even advertises in branch windows. Citi is expanding its marketing of the Landmark funds into California, Chicago, and Washington, D. C.

The banks' chief goal in hawking in-house funds is to keep customers from moving their assets to other investment-product vendors. "If someone has their checking, auto loan, and investments with the bank, there's not a wedge that can be driven by a Merrill Lynch broker with a cash-management account," says Jeremiah M. Potts, vice-president for banking-industry marketing at Massachusetts Financial Services Co.

As their major selling point, banks are stressing their objectivity and reputation for integrity, as compared with other purveyors of financial services. "Bankers are not viewed as used-car salesmen, trying to hustle customers into just the products that they want to sell them," notes Furash.

Citi insists that the bank's mutual-fund campaign doesn't make a distinction between proprietary funds and outside funds. Bank of America also stresses that while it is widening its stable of in-house funds, which have assets of \$1 billion, they are just part of the investment buffet. "If we can't offer the performance and service that other funds offer, then we shouldn't be given favored-nation status," says Donna J. Knight, vice-president and manager of investment-product development.

But the temptation to encourage the sale of in-house funds is strong. "Some banks are falling into a trap by insisting on selling just their proprietary funds," says Furash. "Unless those funds have a great track record, then they're trying to hustle consumers into a subpar product." Loren Smith, Citi's head of New York marketing, concedes that "if we sell a Fidelity fund, we may make 3% on a onetime sale, and then the money is gone. If, say, we got the Landmark fund up to \$3 billion, we would make 0.5% to 0.6% on the whole kit and kaboodle as long as it's there."

SMALL THREAT. Some regulators also worry that, in promoting themselves as trusted advisers, banks may give consumers the impression that money in house-brand funds is protected by deposit insurance. "To the extent that these securities are being sold by banks or on bank premises, we continue to be very concerned about depositor confusion," says Bob Mialovich, assistant director of supervision for the Federal Deposit Insurance Corp.

The mutual-fund industry's reaction to

the banks' house-brand funds is, so far, muted. While Benham's Farrar is worried, most fund companies seem to perceive little threat. Some fund companies such as Fidelity Investments are actually helping banks set up their house-brand funds. "In general, I don't see the logic of banks being in the fund business," says John Bogle, chief executive officer of the Vanguard Group. "What can they contribute that we can't? Better service? Lower prices? Better performance? That would be difficult."

Bogle has a good point. Yet many seasoned bank observers suggest that it could be very dangerous for the established mutual-fund industry to remain complacent. Says Lowell L. Bryan, a banking consultant at McKinsey & Co.: "Toward the end of the decade, as truly national banks emerge, I would expect some big national banks to be very serious competitors to the traditional fund groups." The once comfortable partnership between banks and fund companies seems certain to become increasingly contentious.

By Suzanne Whitten in New York

JAPAN

FEAR STALKS THE NIKKEI

Tokyo's ailing stock market is haunted by rumors of a big sell-off

Tokyo brokers were lunching at their desks on Jan. 21 when the headlines started flashing across their video screens. Japanese Finance Minister Tsutomu Hata was calling for a stronger yen. Eagerly, the traders awaited a similar vote of support for their sickly stock market. But nothing came. So an hour later, as the Tokyo Stock Exchange's afternoon trading session began, the Nikkei stock average tumbled 260 points, or 1.2%. "Everyone," complained Jason C. James, market strategist for James Capel Pacific Ltd., "was disappointed."

For the third year running, disappointment is the dominant mood in shell-shocked *Kabuto-cho*, Japan's Wall Street. Although the U.S. and many other global equity markets are surging, Tokyo is still gasping for breath. At around 21,000, the widely watched Nikkei (chart) is down 46% from its

1989 record high. But few expect a recovery anytime soon. For one thing, investors are jittery over a new political scandal swirling around the ruling Liberal Democratic Party. Trade tensions with the U.S. are mounting. And some \$58 billion worth of personal and corporate equity trusts are due to expire this year, estimates Merrill Lynch Japan Inc. strategist Munenori Wakita.

SLOW GROWTH. Wakita and others believe that investors in the trusts are looking for any excuse to liquidate large parts of their equity holdings before the end of the corporate fiscal year on

Mar. 31. Any sign of that could push the Nikkei back to 15,000, its lowest point since 1986, says Tetsuo Tsukimura, an economist at Smith Barney, Harris Upham & Co.

In the past, traders shrugged off such predictions, confident that Japan's ultracompetitive \$2.8 trillion economy would in the end

TOKYO'S LONG SLIDE



DATA: ORC/McGraw-Hill



TOKYO TRADERS: STOCKS ARE DOWN 46% FROM A 1989 RECORD HIGH, AND FEW EXPECT A RECOVERY SOON

bail them out. But with two years of high interest rates crimping domestic spending, the traders aren't so sure anymore. The Organization for Economic Cooperation & Development estimates Japanese gross national product growth at only 2.4% this year, the poorest annual showing since the oil shock of 1974.

Even worse, the weakness of the Tokyo stock market has stripped Japan of its longtime cheap-money edge. When Tokyo was booming, many companies floated bonds yielding 1% or even less by giving investors warrants to buy shares in the future at bargain prices. But with 10-year government-bond yields now around 5.3%, vs. 7% in the U.S., Japanese companies are paying nearly as much as American ones. As a result, hot-money-fueled foreign takeovers are all but dead, and domestic spending on new plants and equipment is plummeting.

LITTLE CUSHION. Adding to the crunch, Japanese banks are turning away borrowers because they fear they are running short of funds. Banks count unrecorded gains on their stock-market holdings as capital. But as the market languishes, much of the banks' cushion has disappeared. Tokai Bank Ltd., for one, already fails to meet internationally agreed-upon capital standards. If the Nikkei slips under 20,000, even the august Bank of Tokyo Ltd. says it, too,

will fall short. Says Shigeru Masuda, president of Zeron Capital Management Inc.: "Below 20,000, Japanese banks have a big problem. Industry has a big problem. The nation has a big problem."

Despite such concerns, the Finance Ministry seems unwilling to try to prop up the market. For one thing, Bank of Japan Governor Yasushi Mieno hasn't abandoned his attempts to squeeze out the speculative excesses of the 1980s that sent stock and real estate prices into the stratosphere. Although he cut the discount rate in December from 5% to 4.5%, the third reduction since last July, Mieno remains concerned that high asset prices will rekindle inflation. And in the wake of a series of messy brokerage-house scandals last year, Finance Minister Hata also is likely to offer brokers little aid. "Supporting stock prices is equivalent to helping the brokers," says Kyoto University professor Kazuhide Uekusa. "The Ministry of Finance doesn't want to be seen in this light."

If the market slips below 20,000, 'Japanese banks have a big problem. The nation has a big problem'

With powerful Finance bureaucrats taking a hands-off stance, the once-thriving brokerage industry has already cut employment by 4%, to 161,000. In contrast to U.S. brokers, which are hiring and expanding again as Wall Street booms, several Japanese brokers are planning to shut 30 branches and nudging workers onto the street by offering meager bonuses or unrealistic transfers. Some small brokers that are losing money are likely to merge with competitors.

STEERING CLEAR. Some analysts are trying to see a bright side amid all the gloom, arguing that many issues are bargains for the first time in years. Average price-earnings ratios on the Tokyo Stock Exchange have tumbled from a peak of 68 two

years ago to around 40 now. After adjusting for accounting and tax differences, that isn't much out of line with the 24.3 p-e for the Standard & Poor's 500-stock index. Indeed, some Japanese blue chips now are cheaper than their U.S. competitors. Fuji Photo Film Co., for one, now fetches a p-e of 15.6, vs. 21.2 for Eastman Kodak Co. But despite such enticements, the smart Japanese money is staying clear. And overseas buyers, a major source of support last year, have vanished. With corporate earnings slumping and yields below 1% "the return is not sufficient," says Akio Mikuni, owner of a Tokyo credit-rating service. "The market must come down, or there will be no revival of trading."

Tokyo newspapers are now speculating that if the bottom under the Nikkei should suddenly give way, stockbrokers might join forces to buy massive amounts of stock, as they did after the Japanese market crashed in 1965. But even that might do little more than bring the carnage to a temporary halt. When they moved to deflate the "bubble economy" of the 1980s, Japanese regulators took a calculated risk that a dose of harsh medicine would set the stock market and the economy on a firm footing for the next decade. So far, the cure seems worse than the disease.

By Ted Holden in Tokyo, with William Glasgall in New York

ONE TABOO THE CHICAGO MERC SHOULD MAINTAIN

Remember dual trading? That's the practice, commonplace in the capital markets, whereby brokers trade for their own accounts while also handling customer orders. It's also either: (a) an invitation for traders to make a nefarious buck by trading in advance of customer orders or (b) a vital contributor to liquidity in the marketplace. Hint: It does help liquidity—in the bank accounts of rogue traders.

It's not that dual trading is inherently wrong but rather that dual traders may be too easily tempted to take advantage of their customers. And it wasn't too long ago that the Chicago Mercantile Exchange agreed. The Merc banned the practice just this past May, in the wake of a government sting operation in Chicago's commodities pits. Bowing before the political firestorm that followed the indictment of 48 commodities traders in mid-1989, and with 34 of them found guilty by early '91, the Merc prohibited most forms of dual trading even as the rival Chicago Board of Trade did nothing. This move was often cited by Merc officials as proof of their fealty to ethics and fair dealing.

RESTLESS. And the Merc was justified in congratulating itself for the ban, because dual trading can spawn a host of abuses. Some brokers can't resist the temptation to illicitly make money by slipping in a personal trade just before executing a big customer order. Others illegally tip off nearby traders to their incoming order flow and, in return, get a favorable price on a subsequent trade. And dual trading enables unscrupulous brokers to steal profits from their customers by diverting the most lucrative trades to their own accounts, leaving their customers with less profitable transactions. Such activities were revealed in the government's four-year investigation of the commodities markets.

Now, less than a year after the ban took effect, some Merc brokers are agitating for a return to the old days.

Some 500, of a total of 2,700 floor traders, have signed a petition requesting that the Merc lift the ban on dual trading. The Merc's board is set to deliberate the matter at a February meeting.

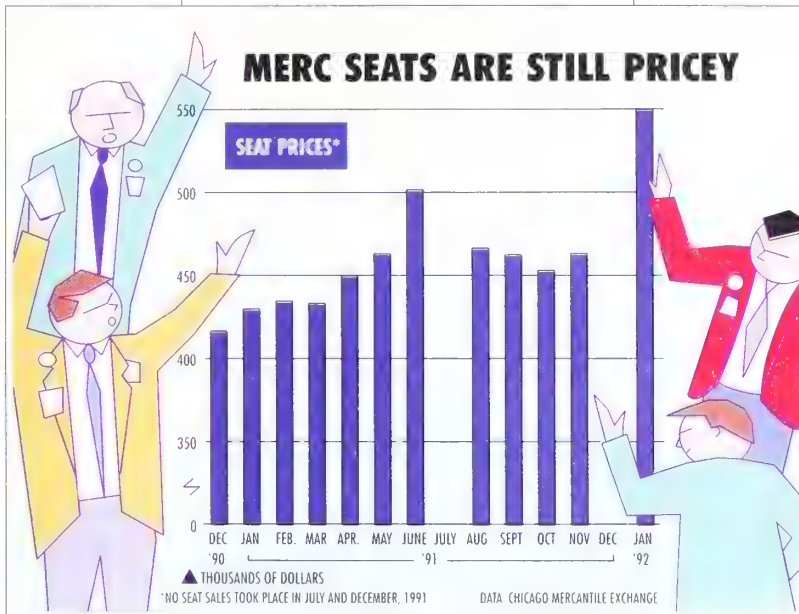
This is no mere intramural squabble but rather a test of the adequacy of self-regulation in the commodities business. The dual-trading prohibition was put into place to appease Congress, which was displeased by the investigation's findings. But Capitol Hill has moved on to other crises, leaving the Merc to police itself. Indeed, reviving dual trading may well arouse the suspicions of legislators and regulators who believe the Chicago exchanges never took to heart the main lesson of the trading scandal: that the pits are vul-

manipulation of the junk-bond markets or Salomon Brothers Inc.'s overbidding for government securities. And let's not forget the penny-stock ripoffs that are another manifestation of dual trading run amok.

'TWO MASTERS.' From the customer standpoint, the value of the dual-trading ban has never been in doubt. "You can't serve two masters," says William Rafter, a former floor trader, now a futures-fund manager with Prism Asset Management of New York. Others note that the open-outcry system in the pits makes dual-trading abuses hard to detect. Says John A. Wing, chairman of Chicago Corp.: "They would have to have a lot better audit-trail system before I would be satisfied with dual trading."

In fact, the Merc points out that a better audit system is under development, one that would catch any abuse of dual trading if the practice is reinstated. The Chicago exchanges are putting the finishing touches on handheld, computerized trading cards that would track trades on a real-time basis. The new audit system is indeed promising, but it should be put into operation and proven effective before a revival of dual trading is considered.

Putting aside the issue of whether dual-trading abuses exist or can be detected, there is one overriding concern: Why do it? Why lift the ban? Brokers argue that dual trading makes markets more liquid by making everybody in the pits a potential trader. But despite the dual-trading ban, the Merc last year turned in record volume. Customers have no problem getting orders filled. And seat prices of \$550,000 are near the high point set just before the 1987 stock market crash. The market has assessed the dual-trading ban—and decided that the new system works. If the Merc fails to reach the same conclusion, it will be a triumph of greed over not only ethics but just plain common sense.



nerable to a variety of trading abuses.

The Merc's chairman, John F. Sandner, is neutral in the latest debate on the issue, but he feels that the exchange is being held to a too lofty standard. After all, he notes, dual trading is commonplace on stock exchanges, in the over-the-counter market-maker system, and in almost all capital markets. "Our institution is being measured against utopia," Sandner complains. "When you're measured against utopia, you fall short."

The "nobody's perfect" justification offers little solace to victims of unscrupulous brokers. And the claim that "everybody does it" is unconvincing in light of dual-trading chicanery in other markets, such as the Milken/Drexel

COMPENSATING FOR WORKERS' COMP COSTS

From exercise breaks to self-insurance, bosses get 'creative'



MOVER WRIGHT:
NO INJURIES,
BUT A PREMIUM
'GOING NUTS!'

Every hour, workers at several of HON Industries Inc.'s plants take five-minute exercise breaks. This is no Japanese-style venture to promote factory-floor togetherness. It's a new experiment at holding down the Muscatine (Iowa) furniture maker's surging workers' compensation expenses—now a worrisome 10% of net income. Limber and alert assembly lines, the company figures, mean fewer accidents.

Funding workers' comp—insurance that pays job-injured employees—is turning more nightmarish by the year. According to the National Council on Compensation Insurance, Corporate America's tab for disability coverage continues to spiral with no easing in sight (chart). This year's increase should be double-digit. The culprits are soaring medical costs, high legal expenses, fraud

by covered workers, and moves by state regulators to include a growing number of maladies, such as stress, under workers' comp. "The overall trend is pretty scary," says Alan H. Strohmaier, director of unemployment and workers' compensation at General Motors Corp. in Detroit.

Worse, the availability of insurance providers is shrinking. A growing number are looking for the exit in states where regulated rates, despite the big increases, still are too low to cover costs. In December, Liberty Mutual Insurance Co., the nation's largest disability insurer, pulled out of the Rhode Island workers' comp market. USF&G Corp. announced plans last month to stop writing the coverage in Mississippi.

SAFETY FIRST. To contain workers' compensation costs, employers and insurers are developing an array of innovative solutions. "It's getting the attention it should have gotten 10 years ago," says Edward D. Deloughy, risk manager at Union Carbide Corp. in Danbury, Conn.

One method is self-insurance, where a company establishes its own disability fund. A study by the Johnson & Higgins insurance brokerage found that self-insurance for workers' compensation accounted for 71% of all self-insurance growth between 1988 and 1990. Bose Corp. of Framingham, Mass., became self-insured in 1991, after watching a 69% rise in premiums in only three years. Risk Manager Kathryn A. Bowers figures self-insuring saves the stereo equipment company about \$200,000 annually off the \$1 million it used to pay in premiums.

Other companies are following HON's example by radically overhauling operations to boost safety. Many manufacturers are focusing on minimizing back injuries. Mennen Co., a Morristown (N.J.) toiletries maker, shrank the size of packing boxes, supplied workers with weight-lifting support belts, and installed power-lifting equipment for heavy loads.

FRAUD BUSTERS. To promote more attention to the problem by operating managers, companies are requiring them to include workers' comp costs in their units' budgets. Managers of eateries owned by TPI Restaurants Inc. of Memphis are now sticklers for safety and adroit at getting injured workers back on the job quickly. "Until managers became accountable for their costs, they wouldn't consider putting someone back to work on light duty," says Ann Casper, TPI's director of corporate risk management.

The payoff from these initiatives can be big. The cost of claims last year fell by 90% for Mennen. At TPI's Shoney's restaurants, accidents dropped 30%. And since the new safety plan was put in place in July, mishaps at one of HON's most injury-prone plants decreased by 67%, from an average of almost four work-loss accidents a week.

Small businesses are turning to employee leasing, where workers are rented out from a larger outfit that takes care of their benefits. This was a godsend to Julian D. Wright, whose Belmont (Mass.) moving company used to spend 28.5% of its entire payroll on workers' comp premiums, even though it never had an injury. The cost, he says, "was going nuts."

Insurers are eager to provide safety tips. HON's insurer, Travelers Corp., assigned 12 full-time employees for a year to aid the company in identifying why accidents occur and overhauling manufacturing processes. They redesigned a metal-bending process to reduce workers' chances of slashing their hands.

The toughest challenge is reining in medical claims, which make up almost half of disability costs. Companies are contesting fraud more vigorously. Others, such as snackmaker Frito-Lay Inc., use early-intervention programs to identify injuries such as back strains before they become permanent.

These are productive steps. But the workers' comp monster is still far from tamed. In the meantime, few personnel expenses will be as disabling to companies' bottom lines.

By Lisa Driscoll in New Haven

WORKERS' COMP COSTS BALLOON



BY GENE G. MARCIAL

A CAUTIOUS PATH FOR A TRICKY TIME

With the Dow hovering at 3250, George Keane is getting edgy. The president of the Common Fund in Fairfield, Conn., which manages more than \$12 billion for 1,000 U.S. schools, colleges, and universities, hasn't exactly turned bearish. But he thinks the market "has been bid up to an extreme level of valuation."

Keane argues that while an economic recovery is expected soon, corporate earnings aren't likely to show significant growth until 1993. And he worries that interest rates, down to their lowest level in decades, should begin rising again later this year as the recovery gains momentum. Says Keane: "Neither U.S. stocks nor bonds are likely to provide very attractive returns over the next couple of years."

So what's an appropriate investment strategy? Keane has turned quite defensive, buying shares in sectors of the U.S. market that are still depressed, such as the oils and the airlines. He has also switched some funds into markets overseas. Keane thinks Europe, in particular, offers good growth prospects over the next few years as trade and tariff barriers ease in the European Community.

WHO'LL WIN FIRST? In the U.S., Keane expects the oils and the airlines to benefit strongly from an economic recovery. So, he has been buying shares of Chevron and Royal Dutch Petroleum—the majors that he says are still trading at modest price-earnings ratios and paying relatively attractive dividends. Chevron, the largest oil-and-gas producer in the lower 48 states, with huge interests in chemicals and minerals, is trading at 68, with a p-e of 12 and a 4.8% dividend yield. Royal Dutch, which owns 60% of Royal Dutch/Shell Group, is at 84, with a p-e of 12 and a nifty 5% dividend yield.

Among the smaller oils, Keane likes Apache, an oil-and-gas independent that explores the continental U.S., both onshore and offshore. At 15, Apache has a p-e of 21—high compared with those of Chevron and Royal. But Keane says Apache is an attractive long-term play among independents with huge oil and gas reserves.

Among airlines, Keane is particular-



GEORGE KEANE LIKES OILS AND AIRLINES

ly high on UAL, parent of United Airlines. It's trading at 150. He believes UAL will climb as high as 200 when the recovery finally takes off.

Since foreign stocks aren't easy for individual investors to get, Keane recommends buying into international stock mutual funds. He likes the "excellent performance records" of T. Rowe Price International Stock Fund, managed by Flemings' ace Martin Wade in London, and Harbor International Fund, managed by another star, Haken Castegren, in Boston.

THIS S&L SAYS: DAMN THE SHORTS

Savings-and-loans are still very much out of favor, particularly those in the depressed Northeast. But DS Bancor, the small holding company for Connecticut-based Derby Savings Bank, is an exception. Its stock has been rising since late November, from 7 to 14. What's the scoop?

One big investor says that with the cost of funds plummeting in the wake of the drop in interest rates, earnings should rebound sharply this year from 1991's depressed 37¢ a share. Doug Dreyer, an analyst at Advest, expects operating net to jump to \$1.25 a share in 1992 and to about \$2.25 in 1993—in line with DS' peak earnings of \$2.23 in 1986, when the stock was at 24.

Some of the shorts are already running for cover. The short position in the stock came to about 600,000 shares in December—a big chunk of the 2.5 million shares outstanding. The shorts had been betting that New England's

weak economy would force the bank to stop paying dividends. But no such luck—for them. The bank has continued to pay a quarterly dividend of 19¢. And when the FDIC required the bank to write off \$700,000 in bad commercial loans, DS went a step further—increasing its reserves by \$2 million, to some \$3.8 million. That means there will be fewer writedowns in the future, which enhances the earnings outlook, says one DS insider.

Meanwhile, board member Michael Daddona, who holds a 9.9% stake, is seeking permission to raise his position to 24.9%. Another stakeholder is Invesco, which owns 9.9%. One investor has heard whispers that a major bank is interested in buying DS. However, Chairman Gene Micci insists that DS is actively seeking acquisitions. "We have the capital to buy other banks," says Micci.

DOUBLE BLESSINGS AT HELIX?

Every now and then, a stock-chart maven gets excited about an issue for reasons beyond its technical vigor. Bob Nurock, for one, is hot about Helix Technology.

The company develops cryogenic (low-temperature) and vacuum technology used in making semiconductors, data storage, and information displays. And technically, the stock "is a beauty," says Nurock, publisher of *Bob Nurock's Advisory Newsletter*. Now at 23, the shares have broken out of the basing pattern they were in last November, when they traded at 17. And the issue has "emerged slowly to its current level on a gradual buildup of volume," explains Nurock.

But what has kept Nurock agog is Helix' fast earnings rise over the past six quarters. In part, that rise comes from stricter cost controls. And if the economy rebounds, says Nurock, the growth rate of semiconductor manufacturing will continue to expand, and Helix's earnings will accelerate more. He sees them reaching \$1.30 to \$1.35 a share in 1991, vs. 1990's 48¢. For 1992, Nurock expects profits to climb to \$1.70 a share. And he thinks the stock is way undervalued. It's trading at a p-e of 13—far below its peak p-e of 33.

Another plus: Helix pays an annual dividend of 76¢ a share—unusually lofty for a high-tech that, according to Nurock, spends 5% of sales on research and development. He expects the stock to double this year.

'WAVELETS' ARE CAUSING RIPPLES EVERYWHERE

Putting math to work on smart weapons, videophones, and more

As head radar maven for Martin Marietta Corp.'s missiles division, Charles Stirman wants to transform today's "smart" weapons into budding Einsteins that can discern in an instant the difference between, say, an enemy troop carrier and an ambulance. The heart of his task is to find faster and better ways of interpreting the jumble of data "seen" by the radar eyes of missiles and other weapons. That's why he was intrigued in 1990 by a scientific article about a new mathematical theory, dubbed wavelets, that could be used to analyze data. "As soon as I saw it," recalls Stirman, "I said, 'This is what we've been looking for.'"

After months of testing, wavelets have proved to be even more powerful than Stirman imagined. Wavelet-based analyses of radar signals require only one-tenth the computing time of traditional techniques. And tests show that the new method can sharpen radar's ability to find camouflaged tanks. Now, Martin Marietta is starting a project to slip wavelet processors into actual missiles—and Stirman thinks the company has a jump on its competition. "This technology is so new," he says, "not many people have heard of it."

They will. Wavelets are making a splash among the mathematical cognoscenti. The technique could help detect

stealthy submarines, provide cruise missiles or autos with detailed maps, and enable phone lines to carry movies and other video images more efficiently. Researchers also are enlisting wavelets to probe the human body and solve complicated equations describing such phenomena as turbulent air and fluid flows—a



PHOTOS CAN BE DIGITIZED, COMPRESSED TO A TINY FRACTION OF ORIGINAL SIZE, AND RECONSTITUTED

key to predicting the weather or designing more streamlined jets. Says University of Colorado mathematician Gregory Beylkin: "If it works, the potential payoff is tremendous."

The actual mathematics involves forbidding equations, new mathematical theorems, and elaborate computations. But the basic idea is simple. In the computer age, the trick is to transform ev-

everything from radar signals to photographs into equations that make it far easier to analyze or manipulate the data. Engineers can use equations, for example, to identify the most important features of a picture, such as the edges between light and dark, then compress the data representing the image into a fraction of its original size. The goal: to transmit this compressed representation, then reconstruct the image so that it looks identical to the original. The technique is key to a variety of emerging technologies. For instance, "without compression, there's no hope of transmitting a picture over a picture-phone," notes Howard L. Resnikoff, president of Aware Inc., a Cambridge (Mass.) company that makes wavelet-based computer chips for industrial use.

BETTER WAY. Turning information into equations isn't a new trick. For decades, scientists performed these transformations using a method invented by French mathematician Joseph Fourier in 1822. So-called Fourier analysis represents everything from the sound of a violin to the jumble of a radar echo as a collection of identical repeating waves—in mathematical parlance, sine and cosine curves.

But Fourier analysis has a hard time representing signals with erratic patterns, such as speech or seismic tests. That's why French geophysicist Jean Morlet began searching in the 1980s for a better way to analyze the sound echoes used in oil prospecting. Tapping into esoteric mathematical theories, he experimented with equations that substituted individual waves—or wavelets—for the endless series of sine and cosine curves.

The idea was promising, and by 1987 AT&T Bell Labs mathematician Ingrid Daubechies and others had worked out many of the kinks. So, when City Uni-

CATCHING THE WAVELET

A DAZZLING THEORY OF MATHEMATICS IS LEADING TO ADVANCES IN:

DATA COMPRESSION

Wavelets identify the key features of an image, allowing engineers to reconstruct a photo with only a tiny fraction of the information in the original

SCIENTIFIC CALCULATION

Wavelets may help decipher phenomena such as turbulence—leading, for example, to improved aircraft designs

SIGNAL ANALYSIS

The new method makes it easier for military radar to spot hidden tanks or for prospectors to find oil using sound echoes

MEDICAL IMAGING

Scientists are using wavelets to produce magnetic resonance pictures of the body faster and more accurately

SAMPLE WAVELET PACKET

DATA BW

Medical studies reveal...

The earlier you use Rogaine, the better your chances of growing hair.



"My hair's completely filled in. It started growing in under 2 months. It was amazing! Early treatment...it works!" —Jim Wilets, 30

Rogaine is the only product ever proven to grow hair. And studies show that using it at the first signs of hair loss gives you the best chance that it will grow hair for you.

What are the early warning signs of losing hair?

Everyone loses a little hair. Fifty to 80 hairs a day is normal. If you're losing more than 100 hairs a day without normal replacement, the first sign will often be thinning of the "crown" at the top of your scalp. See your doctor when you first notice it, because this small bald spot can grow larger over time.



"I may not have grown any hair after 6 months, but most of my hair's stopped falling out. I'm glad I got to the doctor fast."
—Luis Silva, 20

of the men who tried *Rogaine* saw at least moderate hair regrowth. Thirty-six percent had minimal regrowth and only 16% had no regrowth.

Doctors also found that it usually takes 4 months or more before you can begin to evaluate your use of *Rogaine*. Side effects were minimal: only 5% of the men tested had itching of the scalp.

Two million men worldwide have tried *Rogaine*. In yearlong clinical tests conducted by dermatologists at 27 medical centers nationwide, virtually half (48%)



"The first time I saw hair growing was at about 8 months. I hadn't lost much...but I'm not taking any chances." —Tony Vila

Will *Rogaine* work for you?

Only a dermatologist or another doctor who treats hair loss can tell you, so see one soon. The sooner you get your prescription for *Rogaine* (which is now available in an economical 3-pack), the sooner you could be growing hair.

For more information, a list of doctors in your area who can help you, and a certificate worth \$10 as an incentive to visit your doctor, call the toll-free number below:

**Send in the coupon or call
1 800 753-5559 ext 679
for your \$10 certificate. Soon.**

Fill this in now. Then, start to fill in your hair loss.

Mr. Keith Barton, The Upjohn Company
PO Box 9040, Opa Locka, Florida 33054-9944

Dear Mr. Barton:

Please send me a free brochure, full of information on how to treat my hair loss with *Rogaine*. And just to make sure I don't forget to go to my doctor about my hair loss, please send me a list of doctors who can help me and a certificate worth \$10 as an incentive to see my doctor. Thanks.

Name _____

Address _____

City/State/Zip _____

Phone _____ Age _____

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January 1992

For a summary of product information, see adjoining page.

Rogaine
TOPICAL
SOLUTION minoxidil 2%

The only product proven to grow hair.

Rogaine
TOPICAL
SOLUTION
minoxidil 2%

The only product ever proven to grow hair.

What is ROGAINE?

ROGAINE Topical Solution, discovered and made by The Upjohn Company, is a standardized topical (for use only on the skin) prescription medication proved effective for the long-term treatment of male pattern baldness of the crown and in females for diffuse hair loss or thinning of the frontal areas of the scalp.

ROGAINE is the only topical solution of minoxidil. Minoxidil in tablet form has been used since 1980 to lower blood pressure. The use of minoxidil tablets is limited to treatment of patients with severe high blood pressure. When a high enough dose in tablet form is used to lower blood pressure, certain effects that merit your attention may occur. These effects appear to be dose related.

Persons who use ROGAINE Topical Solution have a low level of absorption of minoxidil—much lower than that of persons being treated with minoxidil tablets for high blood pressure. Therefore, the likelihood that a person using ROGAINE Topical Solution will develop the effects associated with minoxidil tablets is very small. In fact, none of these effects have been directly attributed to ROGAINE in clinical studies.

How soon can I expect results from using ROGAINE?

Studies have shown that the response to treatment with ROGAINE may vary widely.

Some patients receiving ROGAINE may see faster results than others; others may respond with a slower rate of hair growth. You should not expect visible growth in less than 4 months.

If I respond to ROGAINE, what will the hair look like?

If you have very little hair and respond to treatment, your first hair growth may be soft, downy, colorless hair that is barely visible. After further treatment the new hair should be the same color and thickness as the other hair on your scalp. If you start with substantial hair, the new hair should be of the same color and thickness as the rest of your hair.

How long do I need to use ROGAINE?

ROGAINE is a treatment, not a cure. If you respond to treatment, you will need to continue using ROGAINE to maintain or increase hair growth. If you do not begin to show a response to treatment with ROGAINE after a reasonable period of time (at least 4 months or more), your doctor may advise you to discontinue using ROGAINE.

What happens if I stop using ROGAINE? Will I keep the new hair?

If you stop using ROGAINE, you will probably shed the new hair within a few months after stopping treatment.

What is the dosage of ROGAINE?

You should apply a 1-mL dose of ROGAINE two times a day, once in the morning and once at night, before bedtime. Each bottle should last about 30 days (1 month). The applicators in each package of ROGAINE are designed to let you apply the correct amount of ROGAINE with each application. Please refer to the instructions for Use.

What if I miss a dose or forget to use ROGAINE?

If you miss one or two daily applications of ROGAINE, you should restart your twice-daily application and return to your usual schedule. You should not attempt to make up for missed applications.

Can I use ROGAINE more than twice a day? Will it work faster?

No. Studies by The Upjohn Company have been carefully conducted to determine the correct amount of ROGAINE to use to obtain the most satisfactory results. More frequent applications or use of larger doses (more than 1 mL twice a day) have not been shown to speed up the process of hair growth and may increase the possibility of side effects.

What are the most common side effects reported in clinical studies with ROGAINE?

Studies of patients using ROGAINE have shown that the most common adverse effects directly attributable to ROGAINE Topical Solution were itching and other skin irritations of the treated area of the scalp. About 7% of patients had these complaints.

Other side effects, including light-headedness, dizziness, and headaches, were reported by patients using ROGAINE or placebo (a similar solution without the active medication).

What are some of the side effects people have reported?

The frequency of side effects listed below was similar, except for dermatologic reactions, in the groups using ROGAINE and placebo. *Respiratory*: bronchitis, upper respiratory infection, sinusitis. *Dermatologic*: irritant or allergic contact dermatitis, eczema, hypertrichosis, local erythema, pruritus, dry skin/scalp flaking, exacerbation of hair loss, alopecia. *Gastrointestinal*: diarrhea, nausea, vomiting. *Neurologic*: headache, dizziness, lightheadedness. *Light-headedness*. *Musculoskeletal*: fractures, back pain, tendinitis. *Cardiovascular*: edema, chest pain, blood pressure increases/decreases. *Palpitation*: pulse rate increases/decreases. *Allergic*: non-specific allergic reactions, hives, allergic rhinitis, facial swelling. *Sensitivity*: *Skin*: Sensitivity, conjunctivitis, ear infections, vertigo. *Visual disturbances*: including decreased visual acuity. *Metabolic/Nutritional*: edema, weight gain. *Urinary Tract*: urinary tract infections, renal calculi, urethritis. *Genital Tract*: prostatic epididymitis, sexual dysfunction. *Psychiatric*: anxiety, depression, fatigue. *Hematologic*: lymphadenopathy, thrombocytopenia. *Endocrinologic*.

Individuals who are hypersensitive to minoxidil, propylene glycol, or ethanol must not use ROGAINE.

ROGAINE Topical Solution contains alcohol, which could cause burning or irritation of the eyes, mucous membranes, or sensitive skin areas. If ROGAINE accidentally gets into these areas, bathe the area with large amounts of cool tap water. Contact your doctor if irritation persists.

What are the possible side effects that could affect the heart and circulation when using ROGAINE?

Although serious side effects have not been attributed to ROGAINE in clinical studies, there is a possibility that they could occur because the active ingredient in ROGAINE Topical Solution is the same as in minoxidil tablets.

Minoxidil tablets are used to treat high blood pressure. Minoxidil tablets lower blood pressure by relaxing the arteries, an effect called vasodilation. Vasodilation leads to retention of fluid and increased heart rate. The following effects have occurred in some patients taking minoxidil tablets for high blood pressure.

Increased heart rate. Some patients have reported—a resting heart rate increased by more than 20 beats per minute. Rapid weight gain of more than 5 pounds or swelling (edema) of the face, hands, ankles, or stomach area, difficulty in breathing, especially when lying down, a result of an increase in body fluids or fluid around the heart, worsening of or new onset of angina pectoris.

When ROGAINE Topical Solution is used on normal skin, very little minoxidil is absorbed, and the possible effects attributed to minoxidil tablets are not expected with the use of ROGAINE. If, however, you experience any of the possible side effects listed, discontinue use of ROGAINE and consult your doctor. Presumably, such effects would be most likely if greater absorption occurred, e.g., because ROGAINE was used on damaged or inflamed skin or in greater than recommended amounts.

In animal studies, minoxidil in doses higher than would be obtained from topical use in people, has caused important heart-structure damage. This kind of damage has not been seen in humans given minoxidil tablets for high blood pressure at effective doses.

What factors may increase the risk of serious side effects with ROGAINE?

Individuals with known or suspected underlying coronary artery disease or the presence of or predisposition to heart failure would be at particular risk if systemic effects (that is, increased heart rate or fluid retention) of minoxidil were to occur. Physicians and patients with these kinds of underlying diseases should be conscious of the potential risk of treatment if they choose to use ROGAINE.

ROGAINE should be applied only to the scalp and should not be used on other parts of the body because absorption of minoxidil may be increased and the risk of side effects may become greater. You should not use ROGAINE if your scalp becomes irritated or is sunburned, and you should not use it along with other topical treatment medication on your scalp.

Can individuals with high blood pressure use ROGAINE?

Individuals with hypertension, including those under treatment with antihypertensive agents, can use ROGAINE but should be monitored closely by their doctor. Patients taking guanethidine for high blood pressure should not use ROGAINE.

Should any precautions be followed?

Individuals using ROGAINE should be monitored by their physician 1 month after starting ROGAINE and at least every 6 months thereafter. Discontinue ROGAINE if systemic effects occur.

Do not use it in conjunction with other topical agents such as corticosteroids, retinoids, petrolatum or agents that enhance percutaneous absorption. ROGAINE is for topical use only. Each milliliter contains 20 mg minoxidil, and accidental ingestion could cause adverse systemic effects.

No carcinogenicity was found with topical application. ROGAINE should not be used by pregnant women or by nursing mothers. The use of ROGAINE and delivery are not known. Efficacy in postmenopausal women has not been studied. Pediatric use: Safety and effectiveness have not been established under age 18.

Caution: Federal law prohibits dispensing without a prescription. You must see a doctor to receive a prescription.



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The Upjohn Company
Kalamazoo, MI 49001 USA

USJ 5497 (0) January 1992

versity of New York mathematician Louis Auslander began a stint at the Defense Advanced Research Projects Agency in 1990, he says, he "was willing to bet DARPA dollars that this technology would fly."

Propelled by \$4 million in DARPA funds since 1990, by companies such as Aware, and by growing interest among mathematicians, wavelets have soared. Though complex, the wavelet equations nevertheless lend themselves to rapid computer calculations. "That's why this got off the ground so fast," explains Yale University mathematician Ronald Coifman. "Otherwise, it would have just been a mathematician's toy."

'JIGSAW PUZZLE.' Coifman and his Yale colleagues pushed the idea further with a concept called wavelet packets. Where the early work relied on a single wavelet shape to analyze a set of data, this scheme picks from a library of them. "It's like pieces of a jigsaw puzzle," he says. "We try to select the minimal collection of shapes that will add together to match the image." Coifman has co-founded Fast Mathematical Algorithms & Hardware Corp. in Hamden, Conn., to produce wavelet-packet software for a variety of uses. Switching from traditional Fourier analysis to Coifman's packets opens up "thousands and thousands of possibilities," says Martin Marietta's Stirman.

Although engineers are just beginning to explore commercial applications, wavelets are often proving superior to existing methods. French researchers have been able to distinguish the clicking noises of shrimp from nearly identical sounds of lobsters, a key test for submarine-detection gear. At Dartmouth College, mathematician Dennis M. Healy Jr. and radiologist John B. Weaver produce magnetic-resonance images in one-third the usual time and with fewer false images caused by pulsating blood vessels. Colorado's Beylkin is developing algorithms—numerical schemes—that could help solve many scientific problems faster. And Aware can compress a digital movie by a factor of 150, then generate an image that is nearly indistinguishable from the original. "A lot of work in academia doesn't get transferred to industry," says Yale mechanical engineer Katepalli R. Sreenivasan. "This will almost certainly get there."

The ultimate impact of wavelets still is unclear. Many leading researchers worry that the theory is becoming a bit too fashionable. "We can't expect miracles," warns AT&T's Daubechies. "Wavelets are just a tool." But if they fulfill even some of the high hopes mathematicians and scientists hold for them, they could help industry sail into the next phase of the Information Age.

By John Carey in Washington

Developments to Watch

EDITED BY PAMELA J. BLACK

GOING ON A PICNIC? REMEMBER TO BRING THE FRIDGE



Heading for the beach on a hot day, you grab beers from the fridge and toss them in the ice chest. Soon, there may be a better way: Take the fridge along.

The portable icebox is one possibility with a new technology that replaces ozone-depleting refrigerants such as CFCs with so-called solid-state-complex compounds. Tiny Rocky Research of Boulder City, Nev., says its innovation may lead to a

"rapid freeze" that makes ice cubes in three minutes or systems that cool computer components without a "cold room."

The technology rests on compounds made of metal inorganic salts such as calcium chloride. These soak up gaseous coolants such as ammonia that, after the compound is heated, are released and evaporate to yield temperatures as low as -70F. Rocky Research has sold a licensing option to an appliance company that may develop portable minifridges that cool for up to eight hours without being plugged in. Next, Rocky says, may come deals with electronics makers.

TAKING AN X-RAY PICTURE OF OUR UNIVERSE

Subatomic particles called neutrinos come from inside such violent environments in space as black holes, quasars, and pulsars. Now, these rare, minute particles could open a window into the great beyond. That's because physicist Francis L. Halzen of the University of Wisconsin in Madison has found a way to chart neutrinos that "will be like taking an X-ray picture of our universe."

In one of three international experiments on neutrino detection, Halzen's team and one from the University of California hope to turn the South Pole into a telescope by lowering radiation detectors 800 meters into the ice. Since ice has no natural radiation, it serves as a better backdrop than water or soil. The earth will help filter out other radiation, which unlike massless neutrinos, can't pass through its core. Occasionally a neutrino will collide with an atom inside the earth and turn into a muon, a garden-variety form of radiation. The muon will leave a trace of light on the detectors—which are calibrated in billionths of a second to reveal the path and direction of the neutrino turned muon. Scientists hope to cover a square kilometer with detectors.

THIS IUD RELEASES HORMONES DIRECTLY INTO THE UTERUS

Finland's Huhtamäki group is known for its Norplant contraceptive implant, which prevents conception for up to five years. Now, it's using similar technology to launch an IUD that reduces the menstrual pain and bleeding that other IUDs worsen. This product will enable the 20% of women who suffer excessive bleeding and cramps to use an IUD. And it could

widen the practice of birth control in developing countries.

Like Norplant, which was introduced to the U.S. market a year ago by American Home Products Corp.'s Wyeth-Ayerst Laboratories, the new IUD gradually releases the hormone progesterin over five years. This causes tissue on the inside of the uterus to atrophy, dramatically reducing menstrual bleeding and pain. The new device also has the lowest failure rate of IUDs currently available, according to the Population Council in New York, which helped develop the contraceptive. "And because the IUD is already in the right place, the hormone dosage is smaller" than that of the pill or Norplant, says Timo Peltola, president of the \$1.5 billion Finnish conglomerate. Huhtamäki has already completed extensive field testing in Scandinavia and recently won approval to market its IUD in Finland. Next, it hopes to get the product accepted in other European countries and in the U.S.

A PILL NOBODY CAN CHOKES ON —OR FORGET TO TAKE

Many people have trouble taking pills. They choke on them, forget them, or take too many. Now, a University of Dayton researcher, physiologist Praphulla K. Bajpai, has patented a long-term drug delivery system that could help. His capsules, made from calcium phosphate, will slowly disperse drugs in the body over a predetermined period of time. Most similar systems, such as those developed for steroids, are made of plastic that must be surgically removed. But Bajpai's capsules, which can be as small as half a centimeter to one centimeter long, are gradually broken down and absorbed into the body.

Bajpai has successfully implanted drug-containing capsules lasting 9 to 12 months under the skin of sheep and rats. Researchers see other potential uses for his ceramic capsules, such as slowly dispersing microbes to clean up oil spills or releasing chemicals such as chlorine into water.

ZAPPING TOXIC WASTE WITH 1.5 MILLION VOLTS

Solid particles in hazardous waste interfere with new techniques that use ultraviolet light, ozone, and hydrogen peroxide to treat such waste. Now, scientists have developed a way around that. Researchers at Los Alamos National Laboratory, Florida International University, and the University of Miami have achieved this advance by using so-called electron-beam accelerators.



The Los Alamos accelerator emits an especially high dose of energy—1.5 million volts—in the form of a pulsed, rather than constant, beam of electrons. The pulsing separates the process into two phases. First, the electrons react with water molecules to make highly reactive free radicals. In the second phase, the free radicals oxidize organic contaminants such as carbon tetrachloride and acetone to form harmless substances such as carbon dioxide and salt, according to Los Alamos engineer Garry Allen. The group is seeking funds for a pilot plant and eventual commercialization.

INTEL BRACES FOR A CHORUS OF 'SEND IN THE CLONES'

Now, chipmaker AMD is drawing a bead on its 486

It seems too good to last. In the slugfest between chipmakers Intel Corp. and Advanced Micro Devices Inc. over AMD's microprocessor clones, everyone is winning. Both companies surprised Wall Street by capping 1991 with record fourth-quarter results. Both exceeded the rosier earnings projections, thanks to soaring demand for the 386 microprocessors, the most popular "brains" for personal computers. In fact, the booming 386 business helped propel Intel into the No. 1 spot among U.S. chipmakers. Its 1991 semiconductor revenues topped \$4 billion, ahead of an estimated \$3.9 billion for No. 2 Motorola Inc.

Now, AMD is gearing up to grab a chunk of the market for Intel's newer 486 chip, the heart of today's most powerful PCs—and a product line so profitable that it offsets smaller margins on the 386. Nobody relishes what that portends more than the companies that build IBM-compatible PCs. Today, they're swimming in 386 microprocessors, and the chips are substantially cheaper than a year ago—which helped spur a 30% jump in unit sales, to more than 11 million chips. Credit that in part to the new competition from \$1.2 billion AMD: Intel has accelerated price cuts since the clones started shipping last summer, most recently slashing 386 list prices by 35%. As a result, one version of the Intel386 that went for \$152 last summer costs \$99 today. And for PC buyers, that means the cost of computers with a 386's IQ—about what a minicomputer had a few years back—will soon slide below \$1,000.

'WORKALIKES.' At the end of January, AMD will make what Chairman W.J. Sanders III terms "a definitive statement" about the Sunnyvale (Calif.) company's plans to enter the 486 market. Presumably, this

means that AMD has now developed "workalike" clones of Intel's 486 line, perhaps offering the same advantages that AMD's Am386s have over Intel386s: slightly faster data processing speeds for about the same price, plus lower power consumption to prolong battery life in laptops. Those benefits helped to more than double AMD's fourth-quarter

microprocessor sales, to \$146 million, up from \$59 million in September. This quarter, Sanders expects AMD to do "something north of \$180 million in microprocessors."

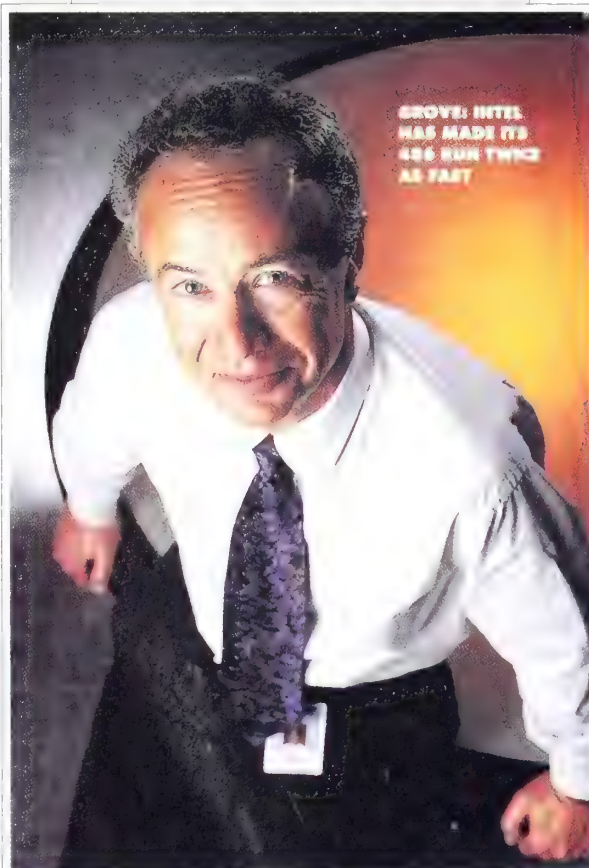
Most of that comes out of Intel's pockets. Before AMD announced its 386 clone last March, Intel had enjoyed a four-year monopoly on 386 chips—partly because of a series of lawsuits against AMD that slowed its clone. Sanders claims his company sold 1.4 million 386 chips last quarter, grabbing 30% of the market. And it snagged some top PC makers, including Packard Bell Electronics Inc. and AST Research Inc.

MORE MEGAHERTZ. Intel is intent on keeping AMD from doing as much damage in 486s. To upstage AMD's announcement, Intel on Jan. 23 unwrapped a bevy of new Intel486 designs. The major advance: faster speed. Intel has doubled the "heartbeat" of its 486 chips—so the top-rung 50 million cycles per second (megahertz, or MHz) design now runs at 100 MHz. While that doesn't translate into twice as much processing power in finished PCs, says Intel President Andrew S. Grove, tests indicate that performance usually jumps by about 70%. At a price of \$500 per chip, compared with \$1,000 for the early, far less powerful 486 designs of three years ago, "it's pretty compelling," says Michael Slater, editor of *Microprocessor Report*, a Silicon Valley newsletter.

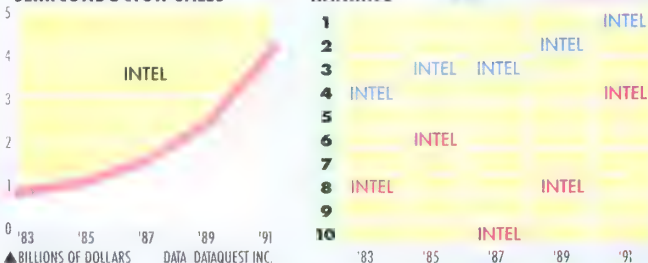
Intel also plans aggressive moves to boost the 386's price-performance ratio—the amount of computing power for the money. By yearend, it's expected to add a dozen more chip designs, including newer "flavors" of the 386 at both the high and low end. "We'll be filling all the price-performance points," says Grove.

But AMD's Sanders promises to dog Intel's tracks, no matter what: "I think we'll surprise them and stay ahead in speed." And by the end of this year, assuming some economic recovery occurs in the second half, Sanders boasts that "we will be outproducing Intel in 386s, with a market share of around 50%."

Grove's reaction to that? No way. Even if AMD does bite off more of the microprocessor market, Intel will soon play its next card: This summer, it plans to introduce its



'BRAINY' CHIPS PUT INTEL ON TOP IN THE U.S.



ext-generation chip, now code-named P- but likely to be dubbed the Intel586. It will lift personal computing to unprecedented levels. Packing a mind-boggling 4 million-plus transistors on a single chip—compared with 1.2 million on the 486—the 586 will quadruple the power of the 486. An entry-level 586, pundits predict, will breeze through 100 million instructions per second (MIPS), vs. 40 MIPS for the speediest 486. While mainframes and PCs process their instructions differently, a 1989-vintage IBM 3090 handles just 20 million per second.

Beyond the 586 are still more complex chips, with tens of millions of transistors and perhaps thousands of MIPS by around the year 2000. To get these astounding gains, \$4.8 billion Intel will pump \$500 million into microprocessor development alone this year, estimates Daniel L. Klesken, an analyst with Prudential Securities Inc.

Indeed, the seemingly limitless potentials of ever-beefier Intel designs—a 686 would arrive around 1995, followed by a 586 by decade's end—could take the wind out of sales of reduced instruction-set computing chips. RISC chips were developed for computers that needed more oomph than Intel could provide, such as workstations from Sun Microsystems Inc. and Hewlett-Packard Co. But there are so many different and incompatible RISC designs, using different variants of the Unix operating system, that none has attracted the software following of Intel's "x86" family running Microsoft's MS-DOS. Today, roughly 85% to 90% of the desktop computers in the world rely on Intel chips or their clones.

BEST FRIENDS? Because of the huge variety of programs for these PCs, some RISC boosters are having second thoughts. Sun Microsystems, the leading builder of RISC workstations, has adapted its software to run on Intel chips. And, on Jan. 22, NeXT Computer Inc. announced a similar move. So, Intel's dominance in desktop computing seems assured, and might even grow.

That means plenty of business for everybody—Intel, AMD, and aspiring Intel cloners such as Chips & Technologies and Cyrix. Indeed, says Sanders, the presence of clones is already expanding the market—the way clones caused the PC market to mushroom. "Intel is really in the catbird seat now," he says. But we're keeping them honest on prices, and that encourages new customers. So you could say we're their best friend."

You could, but Grove doesn't quite see it that way. At any rate, if both companies keep winning in the microprocessor wars, they might be too busy to bother mulling their bitter rivalry.

By Otis Port in New York, with Russell Mitchell in San Francisco

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THIS COULD PUT STORAGETEK INTO OVERDRIVE

Its disk-drive array saves mainframe data cheaply and reliably

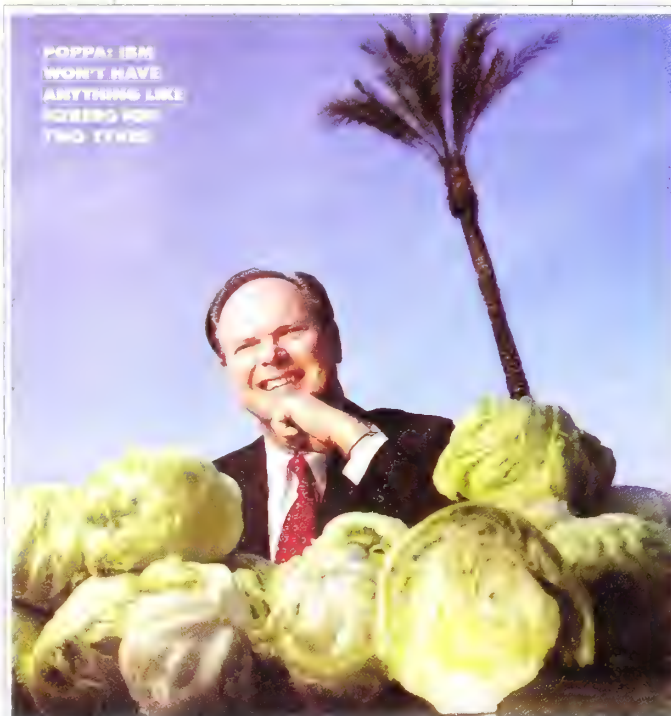
Back in the 1960s and 1970s, when companies wanted to sell disk and tape drives to IBM-mainframe customers, the strategy was simple: Show that the lower-priced replacement did just what IBM's did—preferably in identical fashion—only better. Back then, companies such as Storage Technology didn't dare deviate too far from Big Blue's path.

Not anymore. On Jan. 28, Storage Technology Corp. plans to launch a data-storage system that does everything IBM's big 3390 disk drives do and more, yet in an entirely different manner. IBM's drives, while technically impressive, are essentially just advanced versions of the "Winchester" design that Big Blue pioneered in 1973. Rather than mimic the 3390, a prohibitively costly tack at this point, StorageTek aims to get superior results by chaining together scores of 5¼-inch Hewlett-Packard drives under the control of a specially programmed computer. IBM is expected to sell a similar "disk array" in about two years, but many customers won't wait, says StorageTek Chairman Ryal R. Poppa (pronounced "poppy"): "They're more sophisticated. They're willing to try new things."

JUKEBOX LIBRARY. The StorageTek system, code-named Iceberg for the unheated building where it originated, could accelerate the comeback the \$1.7 billion company has made since emerging from Chapter 11 reorganization in 1987. After impoverishing itself in a failed attempt to clone an entire IBM mainframe, the company has bounced back with an automated tape library. The jukebox-like device uses a robot arm to retrieve tape cassettes storing older files, such as last year's invoices. Because IBM still has nothing similar to sell, StorageTek has won 90% of that \$1 billion-plus market.

Market analysts say Iceberg should give StorageTek a good chance of boosting its share of the \$10-billion main-

frame-disk market from under 2% to well over 10% by 1994. Anticipation has already driven its stock up a slope almost as steep as the mountains just west of its Louisville (Colo.) headquarters (chart). Securities analysts such as



Soundview Financial Group's Stephen Cohen predict "tremendous" demand when Iceberg shipments begin around midyear. Says Poppa: "We've caught the imagination of the industry."

And not by accident. For more than a year, Poppa and other executives have been talking up Iceberg to some 1,200 tape-library customers. The company even leased a Falcon jet, dubbed *CIO Express*, just to ferry chief information officers to Louisville. StorageTek "will do beautifully" with Iceberg, says James R. Porter, president of Disk/Trend Inc., a Mountain View (Calif.) industry watcher. "The only question is: 'How long will it

take IBM to get its act together?'"

The disk-array concept, based on a tightly regimented gang of small, cheap disk drives, has been gestating for almost a decade. Array products are already available for mini- and supercomputers, and several dozen variations are under development in the U.S. and Japan. "It's the coming thing," says Porter. But Iceberg, controlled by its own mainframe-caliber computer, aims to be the most sophisticated array yet.

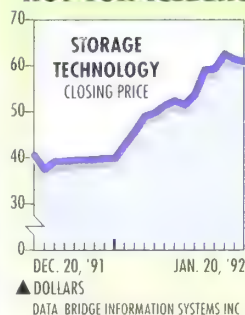
EASY BACKUP. Its main appeal won't be simply cost, says Poppa, though at \$7 to \$9 per megabyte, the \$700,000-and-up machine should beat the \$11 per meg of IBM's 3390s. Instead, StorageTek is emphasizing its unprecedented reliability—a major draw for customers such as airlines and banks that depend on mainframes 24 hours a day. By spreading data over as many as 128 disk drives, each storing 1,600 megabytes, Iceberg is designed to be virtually immune to the infrequent but inevitable failure of its individual drives. A drive can fail, but the data is safe. In addition, Iceberg allows data centers to make backup copies of their "live" files more frequently, without interrupting ongoing work. Conventional disk setups require hours of computer time to make daily backups.

StorageTek's main risk, say analysts, is that Iceberg won't live up to its hype. No company has ever built a disk array this complex for commercial work. Poppa says IBM salespeople, lacking anything comparable, have been trying to "spread FUD"—industry slang for fear, uncertainty, and doubt—for 18 months. StorageTek recently decided on three more months of testing to make sure it doesn't ship a lemon, as it did eight years ago when it cloned IBM's 3380 disk drive—a move that pushed it toward bankruptcy.

Even with the delay, analysts predict shipments of as many as 150 units this year. Next year, a StorageTek executive says shipments will double every quarter, reaching some 3,000 a year by the end of 1994. At that rate, Iceberg will be making a lot of lettuce.

By John W. Verity in New York, with Sandra D. Atchison in Louisville, Colo.

INVESTORS ARE HOT FOR ICEBERG



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EDITED BY AMY DUNKIN

Investing

ACCOUNTS THAT DO IT ALL

With interest rates falling to their lowest levels in decades, millions of savers have been jolted out of their inertia. Once content to park money in bank certificates of deposit, they are now open to alternatives that can give them more services and better rates of return. This awakening has not escaped the notice of retail brokerage firms. And as they first did in the late 1970s, they are using asset-management accounts as the weapon of choice in luring customers away from banks.

The basic asset-management account has a checking, securities, and money-market-fund account all rolled into one. "We allow you to put a lot of assets into one pot," says Gerald Cremins, director of asset-accumulation services at Merrill Lynch.

With the market so competitive, brokerage firms are

adding enhancements to make their products more attractive. Shearson Lehman Brothers, for example, is about to relaunch its Financial Management Account (FMA) with such new features as an automated-teller-machine card and automatic funds transfer between Shearson and your bank of choice. PaineWebber is starting an investing magazine for its Resource Management Account customers. And Merrill Lynch, whose Cash Management Account (CMA) is the granddaddy of these products, is now allowing you to link your CMA to your individual retirement and trust accounts and to other family members' CMAs. "Competition has resulted in better overall yields, better access to funds, and more services among these accounts. All of this has been extremely beneficial to individual investors," says John Markese, director of re-



search, American Association of Individual Investors (AAII).

PRIVATE INSURANCE. Brokerages have even strengthened their account safety nets to ease the jitters of bank customers nervous about giving up the security of federal deposit insurance. Many provide private insurance on top of the \$500,000 per brokerage account in securities and cash

coverage from the quasi-public Securities Investor Protection Corp. For example, Dean Witter's Active Asset Account customers get free extra coverage of up to \$25 million on their account. Merrill also offers the option of holding assets in an FDIC-insured savings account instead of a money-market fund.

The biggest selling point of asset-management accounts, which are also offered by many regional banks and brokerages, is the same as it always was: convenience. For a fee of up to \$125 a year, you get one consolidated statement every month that combines your brokerage activity, credit-card charges, and money-market-fund holdings.

Asset-management accounts also make your money work more efficiently because you can easily shift funds between the money-market account and stocks and bonds. Any cash that accumulates from dividends, interest, and securities sales gets automatically invested in the money-market ac-

ASSET-MANAGEMENT ACCOUNTS

	Annual fee	Minimum cash, securities	Credit/Debit card	Fund choices	ATM access
DEAN WITTER Active Assets Account	\$80	\$10,000	Visa debit	5	Visa, Plus
FIDELITY Ultra Service Account	\$5/month \$25 one time	\$25,000	Master Card, Visa Gold credit (\$24 annual fee)	6	Plus
CITICORP Focus	\$125	\$10,000	Citi Master Card, Visa Gold debit	4	Cirrus
KIDDER, PEABODY Premium Account	\$90	\$25,000	Visa Gold debit	7	Visa
MERRILL LYNCH Cash Management Account	\$100	\$20,000	Visa debit and/or Visa Gold (\$25 annual fee)	13	Visa, Plus, Exchange
PAINEWEBBER Resource Management Account	\$100	\$10,000	Master Card debit	5	Master Teller, Plus
PRUDENTIAL SECURITIES Command Account	\$75	\$15,000	Visa debit	7	Visa, Plus
CHARLES SCHWAB Schwab One Asset Management	None	\$5,000	Visa debit	2	None
SHEARSON LEHMAN BROS. Financial Management Account	\$100	\$10,000	AmEx Gold charge card	5	Plus, NYCE, Exchange

DATA BW



unt. And according to AAI's Markese, brokerage money-market funds frequently have better yields than bank money-market funds.

Both full-service and discount brokers offer asset-management accounts, but only the full-service firms assign each customer a broker. Their hope is that the broker will develop a close enough relationship to sell the customer other investment products. And while discount brokers' asset-management accounts are generally cheaper—Schwab's is free—they don't usually offer as many features as, say, Merrill's CMA. Schwab, for example, has no ATM access and just a few money fund choices. Of course, at Merrill, customers pay full commission rates on stock trades while Schwab's are discounted.

You should consider a number of features when choosing an asset-management account. Among them:

Minimum. The amount you need to open an account ranges from \$5,000 for Schwab One Asset Management account to \$20,000 for Merrill's CMA. Ask whether you must always maintain at balance or whether you

are allowed to fall below it.

■ **Annual fee.** It ranges from no fee for the basic Fidelity-Plus to \$125 for Merrill's CMA with a Visa Gold Card. Merrill also has a Capital Builder Account for \$65 a year that has a \$5,000 minimum and offers only one money fund and three free checks a month.

Brokerages have added stronger insurance safety nets

■ **Debit or credit card.** Find out if the account offers a credit or a debit card. When you make a purchase with most debit cards, the amount is deducted immediately from your account. With Merrill's CMA, for an extra \$25, purchases made with the Visa Gold Card are not debited until the end of the month. Shearson's FMA is the only one to offer an American Express Gold charge card.

■ **Sweep features.** How frequently are unused balances deposited into a designated money-market fund? Dean Witter sweeps every dollar daily, while Merrill sweeps

amounts over \$1,000 daily and amounts under \$1,000 weekly.

■ **Statement.** Take a look at the monthly statement and see whether it is easy to read. Note the level of detail provided. PaineWebber tells you when you bought each stock, what you paid for it, and what your unrealized gains or losses are. At Merrill, clients with about \$500,000 in their CMA receive a more sophisticated statement that shows, for example, that 9% of your total assets are in money-market funds and 6% are in government securities.

■ **Mutual funds.** PaineWebber offers a choice of five; Merrill's CMA has 13. Dean Witter's Active Asset Account offers money-market, tax-free, and government securities funds, plus one that is insured by the FDIC.

■ **Checking.** Most accounts offer free checking, but usually you pay for the checks. Find out whether you receive canceled checks. Merrill gives you copies of 15 canceled checks a year, but charges \$3 apiece thereafter. Find out if there is any minimum on the amount you can write a check for and what the extra costs are, say, for checks returned for insufficient funds.

■ **Check coding.** Some accounts let you set up categories, such as tax-deductible or entertainment. You then write a code letter on each check, and at the end of the year, you receive a summary by category.

■ **Customer service.** Is there an 800 number, and what services are offered? Merrill has many 800 numbers, including ones for cash machine locations and for transferring funds.

■ **ATM access.** Which cash machine networks, if any, do you have access to, and how many machines will accept your card? Merrill has 98,000 ATMs worldwide. Also, is there a charge for ATM withdrawals? Merrill charges \$1 for each one.

Eventually, brokerage firms may increase the required minimum because small accounts are not profitable, says AAI's Markese. But with interest rates expected to stay low for a few months and the stock market hot, competition among brokerages for customers' dollars will remain intense. That means the fees and features of some asset-management accounts could get sweeter. In this market, it pays to shop around. *Leah Nathans Spiro*

When Gail Sieg's daughter came down with the flu in 1990, USAir allowed her to change the dates of four non-refundable Pittsburgh-to-San Francisco tickets at no charge. And last July, when the suburban Pittsburgh mother of two became ill, USAir gave her husband a full refund on a discount ticket to Frankfurt. "USAir has been wonderful in understanding that illness is something beyond our control," says Sieg.

While USAir is the first major U. S. carrier to tighten restrictions significantly on illness waivers, many in the travel industry doubt it will be the last. "The fewer the airlines, the greater the restrictions will be," says Donna Musselman of Pittsburgh's Fortune Travel.

anyone changing or canceling a nonrefundable ticket pays the service charges regardless of reason. That's great for travelers who just change their minds—they previously lost most or all of their money—but a pain for people who get sick. "Before, we spent a lot of time determining what was legitimate illness and what wasn't," says USAir spokeswoman Susan Young.

select the lowest fares on Sabena or SAS, simply being ill won't get your money back—you have to be hospitalized. British Airways gives no refunds for health on its lowest fares. U.S. airlines such as United, on the other hand, offer the same illness waivers on foreign and domestic flights. So do your homework before choosing a carrier.

FAMILY AFFAIR. Even if you stay healthy, you may not get a refund if a loved one at home falls ill. Most U.S. carriers allow medical waivers for family members as distant as a mother-in-law. But with foreign airlines the ill relative usually must be a spouse or immediate family member.

It's also tricky when traveling companions are unmarried couples or business associates. Southwest and most foreign carriers don't specifically allow refunds if one person gets sick and the other must cancel, too. So you'll have to plead your case with the customer service department. Airlines will make exceptions—especially if you or your company give them lots of business. *Jim Ellis*

How can you sniff out such stocks? A few companies, such as Chrysler, discuss their breakeven points publicly. Jean-Marie Eveillard, manager of SoGen International Fund, also looks to see if direct, general, and administrative expenses are declining as a percentage of sales. In a recession, he checks for improving margins despite declining sales.

One stock that Eveillard likes is Baldwin Piano & Organ. Since acquiring rival Wurlitzer in 1988, Baldwin has consolidated production

Company	Share price Jan. 20, 1992	P/E ratio ^a
AMAX	21	47
BALDWIN PIANO	9¾	8
CHRYSLER	14	NA**
REYNOLDS METALS	57½	20
RYDER SYSTEM	23½	30

DATA: ZACKS INVESTMENT RESEARCH. BW

Companies that have invested in more efficient production are also a good bet. Fidelity Investments Portfolio Manager Richard Mace

notes that Amax and Reynolds Metals are profitable even with aluminum prices at a stingy 50¢ per pound—while the average company needs 60¢ to break even. Amax and Reynolds do better because both have invested heavily in new smelters.

WAITING GAME. Of course, other factors can wipe out cost-cutting benefits. For instance, Chrysler is close to being the low-cost producer among the Big Three, but discounting has eaten up cost-cutting gains, contributing to 1991 losses at the No. 3 auto maker. Still, some investors are buying shares on the theory that Chrysler will benefit most if an auto turnaround comes soon.

Whatever a company's situation, breakeven-point analysis can be valuable. Any company that has lowered fundamental costs during hard times merits a closer look.

Thane Peterson



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Leisure

BACK TO NATURE IN BELIZE

Two young Swedes, Lars and Anke, were looking for a sunny spot in the Caribbean. But the only flight they could find from Houston with seats available was to Belize—a place they had never heard of. A day later, strolling along the sole—unpaved—street in Caye Caulker, a tiny snorkeling resort, Lars was struggling to orient himself. “Who does this belong to,” he asked, surveying the palm trees and wooden houses on stilts, “Guatemala or Mexico?”

Neither. Belize, formerly British Honduras, is an independent, English-speaking country in Central America. It has none of the high-rise hotels of Cancún, none of the casinos of Nassau. In fact, Belize has little development at all. What it does have is lots of jungle and coral reefs.

And that's what Belize is selling. In these days of recession and ecological aware-

It takes a traveler with a taste for the outback. Continental, American, Taca, and Tan Sasha airlines offer flights from Houston, New Orleans, or Miami into Belize City, a sweltering port alive with the sounds of Creole English. With its dilapidated clapboard shacks and drainage canals, Belize City is the kind of enclave where a Graham Greene character might drink away the hours.

If so, he could do worse than try Belize's tasty Belikin beer, accompanied by stewed sea turtle, red snapper, lobster, or gibbon (a savory rodent). Lunch at Macy's Café goes for about \$5. Four Fort Street, housed in a Nantucket-style mansion, transforms

razzmatazz of Cancún or Acapulco, it has comfortable hotels, such as the Sun Breeze and San Pedro Holiday.

Comforts aside, the real reason to visit San Pedro is to snorkel around Belize's magnificent coral reefs. Just rent some gear and go down to the docks. Boaters will take you to the reefs for \$5 to \$7 per person. The Hol Chan Marine Reserve is close by. But too many snorkelers have stirred up the sand there, killing the once-colorful reef, and turning the seascape into something resembling the West Texas desert.

SAN SIMIAN. Caye Caulker, smaller than San Pedro, is a one-hour water-taxi ride from Belize City. Popular with the Euro-backpack crowd, it has only the basics: \$10-a-night hotels, fried-fish restaurants, and dozens of unspoiled reefs.

While many tourists visit Belize for the snorkeling, a growing number are venturing inland to the rain forest. One of the most popular destinations is the howler monkey sanctuary in Bermudian Landing. There, more than 1,000 monkeys swing through the jungle canopies, chattering noisily. Unfortunately,



ECOTOURIST DRAWS: A HOWLER MONKEY AND PRISTINE FALLS



when I tried to visit it in December, the road had been washed out.

A cushier spot is Chan Chich. Built near an ancient Mayan complex, Chan Chich has 12 comfortable bungalows, an airstrip, and a four-star restaurant. Lodging costs \$80 a night. By day, tourists can hike through the jungle in search of toucans, jaguars, and monkeys.

All kinds of entrepreneurs offer river

trips to Mayan ruins, visits to what's called the world's only jaguar preserve, and more. U.S. travel agencies can arrange trips. You can also get information from the Belize Tourist Board (011-501-2-77213) and the Belize Audubon Society (011-501-2-77369).

Tourists who want to improvise should visit Mom's Restaurant on Handyside Street in Belize City, a clearinghouse for tours and jungle forays. They say Mom's serves up a tasty gibbon. But I stuck with the rice and beans.

Stephen Baker



ROUGHING IT: A CENTRAL AMERICAN ENCLAVE FREE OF HIGH RISES

ness, Belizeans are betting that many tourists will choose to rough it on the cheap, trekking out to see howler monkeys in a rain forest or non-chalant sharks off the coral reefs. With only 200,000 people in a country the size of Massachusetts, Belize has plenty of nature to explore.

the native fare into haute cuisine. Entrées start at \$14.

Many tourists skip the funky port and bolt straight from the airport to San Pedro, a snorkeling haven on Ambergris Caye. A 15-minute, \$15 flight from Belize City, San Pedro is Belize's only developed resort. With little of the

Worth Noting

■ **TAX RULE.** Franklin, the mutual-fund firm, offers a Tax-Free Yield Calculator at no charge. You look up your state and tax bracket, and a chart tells you how much a taxable investment needs to earn to match a tax-free yield. Call 800 DIAL-BEN.

■ **CANCER CARE.** The *Cancer Research Institute HelpBook* (800 99-CANCER) gives advice on cancer care and includes a resource directory. It's \$2 for shipping, but donations are encouraged.

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Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

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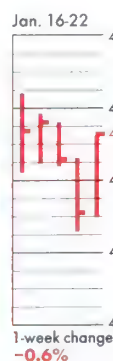
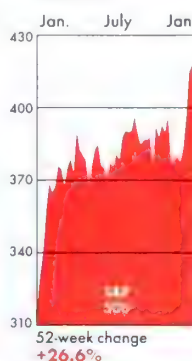
The global computer & communications company

Investment Figures of the Week

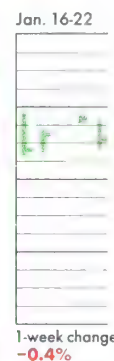
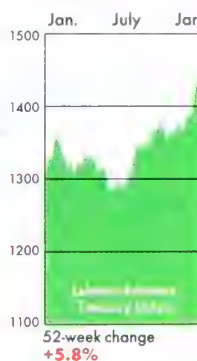
COMMENTARY

stock market took a breather as its journey to the stratosphere. Dow Jones industrial average to an all-time high of 3265 on Jan. 17, in a rally that was led by once-moribund cyclical stocks. As joined in the merriment, initial public offerings continued to draw sustained interest. However, the surge in stocks lost steam in the next two days before rebounding on Jan. 22. Electric utility stocks softened, as the medical and drug stocks were the stars of 1991.

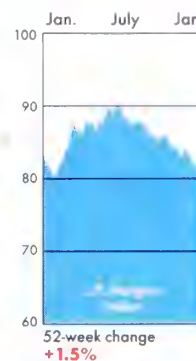
STOCKS



BONDS



THE DOLLAR



MARKET ANALYSIS

STOCKS

	Latest	Week	% change 52-week
DOW JONES INDUSTRIALS	3255.8	-0.1	24.3
COMPANIES (Russell 1000)	221.6	-0.9	29.2
ALL COMPANIES (Russell 2000)	203.7	-0.3	53.6
COMPANIES (Russell 3000)	236.4	-0.9	30.4

FOREIGN STOCKS

	Latest	Week	% change (local currency) 52-week
DOW JONES (FINANCIAL TIMES 100)	2522.0	-0.6	20.8
DOW JONES (NIKKEI INDEX)	21,534.1	-1.1	-6.6
DOW JONES (TSE COMPOSITE)	3638.8	-0.5	14.0

FUNDAMENTALS

	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	3.84%	3.93%	6.3%
30-YEAR TREASURY BOND YIELD	7.63%	7.58%	8.2%
S&P 500 DIVIDEND YIELD	3.01%	2.95%	3.7%
S&P 500 PRICE/EARNINGS RATIO	22.6	21.8	14.3

TECHNICAL INDICATORS

	Latest	Week ago	Reading
S&P 500 26-week moving average	391.2	389.9	Positive
Stocks above 26-week moving average	69.4%	66.2%	Neutral
Speculative sentiment: Put/call ratio	0.34	0.32	Neutral
Insider sentiment: Vickers sell/buy ratio	1.62	1.67	Positive

INDUSTRY GROUPS

4-WEEK LEADERS

	4-week	52-week
MACHINE TOOLS	36.2	34.9
RECREATION TIME	29.4	55.7
SEMICONDUCTORS	28.3	42.7
TRANSPORTATION	24.0	28.9
NEWSPAPER PUBLISHING	19.4	15.9

4-WEEK LAGGARDS

	4-week	52-week
SOFT DRINKS	-4.6	38.9
ELECTRIC POWER	-4.6	13.9
DIVERSIFIED HEALTH CARE	-3.8	34.0
DRUGS	-3.5	49.8
MEDICAL PRODUCTS AND SUPPLIES	-3.4	45.3

Strongest stock in group

	4-week	52-week	Price
ACME CLEVELAND	49.0	87.2	9 1/8
BRUNSWICK	38.5	59.5	15 3/4
NATIONAL SEMICONDUCTOR	35.4	58.5	8 1/8
RYDER SYSTEM	27.2	50.8	23 3/8
NEW YORK TIMES	32.5	26.4	27 1/2

Weakest stock in group

	4-week	52-week	Price
COCA-COLA	-6.8	50.9	73 3/8
SCEcorp	-9.3	12.5	42 3/4
AMERICAN HOME PRODUCTS	-6.9	52.7	77 1/8
SCHERING-PLOUGH	-7.8	41.4	58 7/8
BIOMET	-7.0	124.1	23 1/4

BRIDGE INFORMATION SYSTEMS INC

MUTUAL FUNDS

LEADERS

	%
4-week total return	
FULL & BEAR SPECIAL EQUITIES	29.5
FIDELITY SELECT ELECTRONICS	27.4
FIDELITY SELECT COMPUTERS	26.8

	%
52-week total return	
PENNINGTON GLOBAL BIO-TECH	142.7
AMERICAN HERITAGE	122.6
AFS LIFETIME EMERGING GROWTH	105.0

LAGGARDS

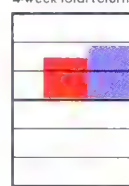
	%
4-week total return	
CUMBERLAND GROWTH	-5.6
DFA JAPANESE SMALL COMPANY	-5.2
STRATEGIC GOLD/MINERALS	-4.6

	%
52-week total return	
STRATEGIC GOLD/MINERALS	-20.3
STRATEGIC INVESTMENTS	-12.8
FIDELITY SELECT ENERGY SERVICE	-12.2

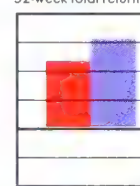
S&P 500

Average fund

4-week total return



52-week total return



RELATIVE PORTFOLIOS

Relative amounts
represent the present
value of \$10,000
invested one year ago
in each portfolio

Percentages indicate
1-day total returns



DATA RESOURCES INC

Data on this page are as of market close Wednesday, Jan. 22, 1992, unless otherwise indicated. Industry groups include S&P 500 companies only; performance and share prices are as of market close

Jan. 21. Mutual fund returns are as of Jan. 17. Relative portfolios are valued as of Jan. 21. A more detailed explanation of this page is available on request

A LITTLE ECONOMIC VISION, PLEASE

This is a defining moment for the U.S. economy. There is a fairly broad consensus that the economy is suffering from neglect and needs fixing. Even the President concedes that something is seriously wrong and is searching for a new economic policy (page 20). At the same time, the end of the cold war has freed resources needed to attack our economic problems. While we may have to spend some money to shore up the republics of the Commonwealth of Independent States, the sums involved will be peanuts compared with the savings to be found in the military budget—roughly \$300 billion over the next decade.

The charge that America doesn't know how to revamp its economy is nonsense. The cold war was won through the investment of vast sums of money and patience. The same kind of persistent long-term approach will be needed to fix the economy. And it won't take the 45 years it took to beat back communism. But it will take what President Bush describes as "the vision thing."

Here's our vision thing: Productivity growth and productivity growth alone is key to international competition and a sustainable rise in our living standard. That suggests a clear test for each new policy initiative: Does it have a reasonable chance of making Americans more productive?

We need to inject billions of new investment into the economy, not to cut taxes to raise consumer spending. The U.S. has an investment deficit, not a consumption deficit; a shortage of human capital, not of consumer durables. Both private and public investment need help.

On the private side, an investment tax credit rewarding businesses for capital expenditures above historical norms would stimulate growth directly and far more effectively than a capital-gains tax cut ever could. Such an ITC must, as usual, be limited to investment in new capital equipment.

But it should be linked to accelerated depreciation on new facilities needed to house new equipment. And businesses need bigger tax credits for research and development. The misguided idea, popular on the Hill, of reviving the ability to write off passive losses in real estate would only promote investments as tax shelters, not for the long term.

Higher productivity growth requires two kinds of public investment. The first is physical investment in revamping the nation's crumbling infrastructure. Public funds would flow directly into the domestic economy—in contrast to tax cuts, which import-prone consumers would partly spend abroad. The second is investment in human capital. We know that some kinds of education expenditures, ranging from the Head Start program for preschool children to apprenticeship programs for high school graduates, are effective. We should not be afraid to fund them generously.

While health care isn't usually thought of as a growth issue, it is. Exploding medical costs threaten to wipe out any peace dividend. Medicare and medicaid costs are projected to rise by \$325 billion over the next decade. Paying the medical bills of the elderly and the poor alone could soak up more than 5.2% of gross national product by the year 2000. And paying for medical insurance for the rest of us imposes an enormous burden on the private sector. Our health care system is not internationally competitive.

Rapid economic growth, as a consequence, requires bold changes. BUSINESS WEEK supports a move to a system of managed care (BW—Oct. 7): Regional health care purchasing corporations, with the power to control costs, would bring group coverage to all employers, the self-employed, the unemployed, and the poor. There are many ways to approach the problem. It is vital that whatever the choice, effective cost containment must be a central element of the plan.

DISINFECTING A \$2 TRILLION MARKET

When Salomon Brothers Inc. admitted last August that it had submitted illegal bids in the Treasury securities market, Washington echoed with calls to give the \$2 trillion market a regulatory scrubdown. Outraged members of Congress were ready to load heavy rules onto the government's overworked borrowing machine, where an interest-rate increase of just 0.01 percentage points can cost taxpayers \$250 million a year.

Fortunately, federal regulators have identified a better disinfectant for the market: the light of day. In a report released on Jan. 22, the Treasury Dept., Federal Reserve, and Securities & Exchange Commission recommend changes that will break the stranglehold that the 38 big primary dealers have on sales of Treasury securities. As BUSINESS WEEK has pointed out, the key is automating Treasury's antiquated paper-and-pencil auctions (BW—Oct. 21). Once bid-

ding goes on-line, Treasury can experiment with open auctions to replace its current sealed-bid sales—eliminating the information bottleneck that forces Treasury buyers to bid through primary dealers such as Salomon.

Automation also will improve surveillance. Computerized bidding allows regulators to verify bids immediately and creates an audit trail to help ferret out rule violations. The new report also calls for backup regulations: Treasury wants the power to require dealers to report large positions and says it will move more actively to break future market squeezes. But those rules will stay on the shelf if the regulators follow through on their automation plans. If the price of admission to the Treasury auction is a computer terminal, the big dealers will never again have the opportunities that Salomon exploited in last year's scandal. An open and efficient market will be the taxpayer's best protection.

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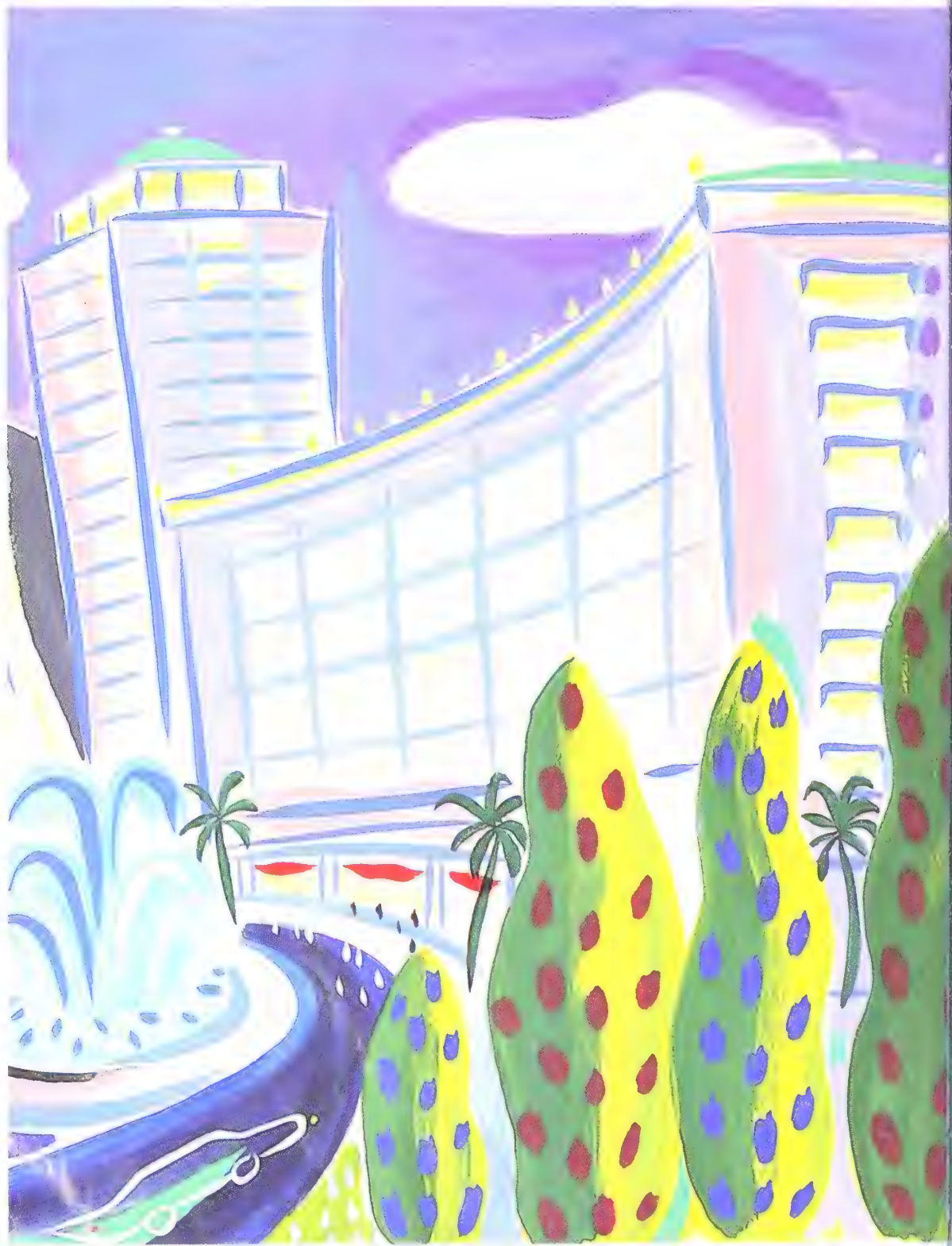
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DETAILING LESSONS FROM BANKRUPTCY DEALS RIDING HIGH AT FORSTMANN LITTLE LAPTOPS A GUIDE TO THE NEW MODELS

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February 10

BusinessWeek

FEBRUARY 10, 1992

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THE PARTNERS

Surprise!
Ford and
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Here's how
they do it

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IN A TOKYO SHOWROOM: THE TELSTAR, FORD'S

RIGHT-HAND DRIVE VERSION OF MAZDA'S 626

Cover Story

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Against all odds, Ford and Mazda have created one of the world's most successful strategic alliances. It's not perfect, but their 13-year marriage seems to be improving with age. The team combines Ford's international marketing and finance expertise with Mazda's manufacturing and product-development smarts. While the U.S. and Japan bicker, the two carmakers offer a lesson in cooperation

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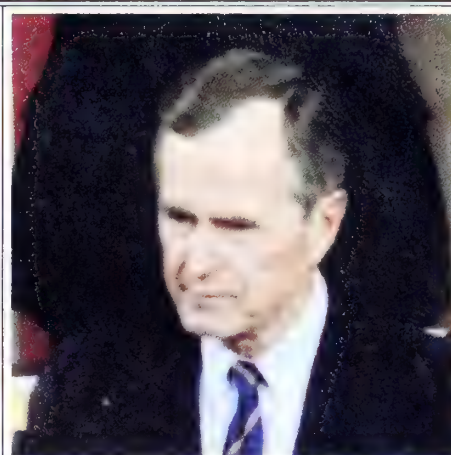
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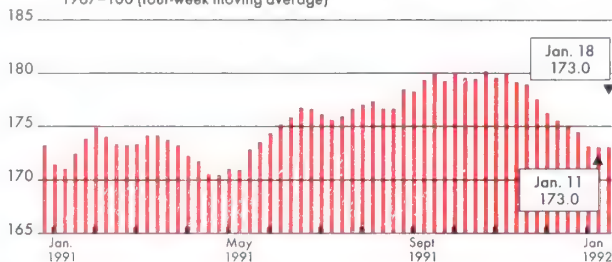
BusinessWeek Index

PRODUCTION

Change from last week: 0.0%

Change from last year: 0.3%

1967=100 (four-week moving average)



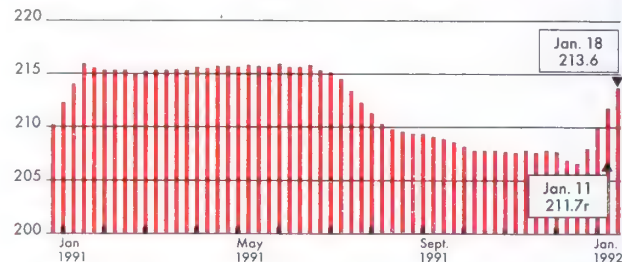
The production index was unchanged during the week ended Jan. 18. On a seasonally adjusted basis, output of autos, trucks, lumber, and electric power increased. Steel, crude-oil refining, coal production, and rail-freight traffic declined. Data on paper and paperboard were unavailable for the week. Before calculation of the four-week moving average, the index advanced to 177.6, from 175.0 posted the week before.

BW production index copyright 1992 by McGraw-Hill Inc

LEADING

Change from last week: 0.9%

Change from last year: -1.0%



The leading index increased for the week ended Jan. 18, reflecting the stock market surge and bond rally of late December and early January. For the latest week, higher bond yields and slower growth in real estate loans and M2 offset higher stock prices, improved growth in materials prices, and fewer business failures. As a result, before calculating the four-week moving average, the index was virtually flat, at 213.3, from 213.4 in the prior week.

Leading index copyright 1992 by Center for International Business Cycle Research

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
STEEL (1/25) thous. of net tons	1,711	1,737#	-0.3
AUTOS (1/25) units	105,387	98,951r#	11.9
TRUCKS (1/25) units	67,294	57,481r#	28.5
ELECTRIC POWER (1/25) millions of kilowatt-hours	60,031	59,913#	0.6
CRUDE-OIL REFINING (1/25) thous. of bbl./day	12,642	13,109#	-0.1
COAL (1/18) thous. of net tons	18,826#	19,070	-7.5
PAPERBOARD (1/18) thous. of tons	NA#	NA	NA
PAPER (1/18) thous. of tons	NA#	NA	NA
LUMBER (1/18) millions of ft.	495.1#	471.8	-0.9
RAIL FREIGHT (1/18) billions of ton-miles	20.3#	20.7	1.5

Sources: American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Paper Institute, VVWPA, SFPA, Association of American Railroads

FOREIGN EXCHANGE

	Latest week	Week ago	Year ago
JAPANESE YEN (1/29)	125	123	132
GERMAN MARK (1/29)	1.59	1.58	1.48
BRITISH POUND (1/29)	1.81	1.81	1.97
FRENCH FRANC (1/29)	5.41	5.40	5.04
CANADIAN DOLLAR (1/29)	1.17	1.15	1.16
SWISS FRANC (1/29)	1.42	1.40	1.26
MEXICAN PESO (1/29) ²	3,050	3,046	2,958

Sources: Major New York banks. Currencies expressed in units per U. S. dollar, except for British pound expressed in dollars.

PRICES

	Latest week	Week ago	% Change year ago
GOLD (1/29) \$/troy oz.	354.850	356.750	-3.3
STEEL SCRAP (1/28) #1 heavy, \$/ton	89.50	89.50	-15.6
FOODSTUFFS (1/27) index, 1967=100	205.8	205.0	-1.9
COPPER (1/25) c./lb.	101.4	99.5	-7.7
ALUMINUM (1/25) c./lb.	56.0	53.6	-18.2
WHEAT (1/25) #2 hard, \$/bu.	4.30	4.29	61.0
COTTON (1/25) strict low middling 1-1/16 in., c./lb.	51.23	51.24	-27.2

Sources: London Wednesday final setting, Chicago market, Commodity Research Bureau, Metals Week, Kansas City market, Memphis market.

LEADING INDICATORS

	Latest week	Week ago	% Change year ago
STOCK PRICES (1/24) S&P 500	415.51	418.52r	23.6
CORPORATE BOND YIELD, Aaa (1/24)	8.22%	8.20%r	-9.2
INDUSTRIAL MATERIALS PRICES (1/24)	94.1	93.6r	-4.3
BUSINESS FAILURES (1/17)	389	413	6.9
REAL ESTATE LOANS (1/15) billions	\$402.6	\$403.1r	0.4
MONEY SUPPLY, M2 (1/13) billions	\$3,405.8	\$3,413.8r	2.3
INITIAL CLAIMS, UNEMPLOYMENT (1/11) thous.	447	401r	-3.5

Sources: Standard & Poor's, Moody's, Journal of Commerce (index: 1980=100), Dun & Bradstreet (failures of large companies), Federal Reserve Board, Labor Dept. CIBCR seasonally adjusts data on business failures and real estate loans.

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Change year ago
HOUSING STARTS (Dec.) annual rate, thous.	1,103	1,075	13.6
BUDGET SURPLUS OR DEFICIT (-) (Dec.) millions	-\$2,644	-\$4,537r	63.8
IMPORTS (Nov.) millions	\$41,032	\$43,434	-4.8
EXPORTS (Nov.) millions	\$37,462	\$37,114	11.5

Sources: Commerce Dept., Treasury Dept.

MONETARY INDICATORS

	Latest week	Week ago	% Change year ago
MONEY SUPPLY, M1 (1/13)	\$903.5	\$892.3r	9.9
BANKS' BUSINESS LOANS (1/15)	290.3	290.2r	-10.2
FREE RESERVES (1/22)	799	631r	886.4
NONFINANCIAL COMMERCIAL PAPER (1/15)	133.0	131.1	-9.6

Sources: Federal Reserve Board (in billions, except for free reserves, which are expressed for a two-week period in millions).

MONEY MARKET RATES

	Latest week	Week ago	Year ago
FEDERAL FUNDS (1/28)	4.00%	4.11%	7.46%
PRIME (1/29)	6.50	6.50	9.50
COMMERCIAL PAPER 3-MONTH (1/28)	4.10	4.06	6.89
CERTIFICATES OF DEPOSIT 3-MONTH (1/29)	4.03	4.03	6.84
EURODOLLAR 3-MONTH (1/25)	4.08	4.10	7.01

Sources: Federal Reserve Board, First Boston

#Raw data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

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A JOB FOR THE CIA: KEEP AN EYE ON SLAVE LABOR

What next for the CIA ("Bush is setting the bloodhounds on Beijing," Top of the News, Dec. 23)? One beneficial intelligence task it should resume is monitoring slave-labor camps in the Soviet Union and China—and their products, which could illegally end up in the U.S.

Even though the Tariff Act of 1930 prohibits the import of goods made by slave labor, the U.S. Customs Service has no ongoing, reliable intelligence program to enforce the ban. Thus, bringing complaints to Customs has been left to courageous individuals such as Harry Wu, who recently blew the whistle on several imports from China made with slave labor.

In the 1980s, the CIA did focus on Soviet slave-labor gulags—which still have about 6 million prisoners. Now, as it redefines its priorities, the CIA should definitely take up again this Soviet tracking and add the 20 million prisoners in Chinese slave-labor facilities.

Carl Olson, Chairman

State Dept. Watch

Washington

Editor's note: This organization is a foreign-policy watchdog group.

HOW NOT TO CUT THE DEBT LOAD, FOR CRYING OUT LOUD

If any chief financial officer of a company proposed replacing 7.7% 30-year debt with one-year debt—no matter what the current one-year rate—he would be put into restraints ("Let's start the new year by cutting the debt load," Economic Viewpoint, Jan. 13). The same demand for ordinary prudence applies to the U.S. government, too. Carrying a lot of short-term debt is dangerous, in case you've forgotten. There are so many objections to such a plan: short-term rates would rise; long-term bonds could only be bought at a substantial premium; when all this new one-year debt has to be refinanced, rates would soar. All of this, and more, would eat up any imagined savings to the Treasury.

The real objection to such a refinanc-

CORRECTIONS & CLARIFICATIONS

In a story on Channel One ("How good is attendance in Chris Whittle's class?," Media, Jan. 27), we erred in saying that Whittle Educational Network-supplied research says only 58% of the audience of 6.6 million children aged 12 to 17 watch the network. Whittle denies there are any such data. It cites an R. D. Percy Associates rating, which shows that the network's audience averages more than 85%.

A table provided by Securities Data Co. ("A stampede for cheaper money," Top of the News, Jan. 20) incorrectly included Biogen in a list of companies filing new stock offerings. Biogen is planning no offering.

In a table accompanying a story on treatment for chronic pain ("When pain itself is the disease," Personal Business, Jan. 27), we listed an incorrect telephone number for the University of Miami Comprehensive Pain & Rehabilitation Center at South Shore Hospital. The number is 305 532-PAIN.

ing plan, however, is that such a drastic change in Treasury borrowing habits would create uncertainty! There is one thing we know about capital markets—uncertainty means higher rates. Besides Gresham's law this may be the only economic rule always true.

The hidden assumption in Blinder's argument is that the current long-term rates are irrational, and that the current short-term rates are logical. The reverse is almost certainly true.

Mean inflation at 4% to 5% (I know it's 3% at present, but that's an artifact of the 1990 run-up and 1991 run-down in oil prices due to the Gulf war) precludes stable short-term rates at 3.5% to 4%. When the day to refinance comes, all these chimerical savings would vanish.

Thomas J. Rieger

Knoxville, Tenn.

Interest rates, which are at a ten-year low, will inevitably rise again. Now is the time to lock in at 7.5% for the next 30 years. In two or three years this rate

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Readers Report

will be a bargain. If the Treasury were to follow Blinder's advice, we'd be refinancing every year at higher and higher interest rates.

Steve Slavin
Professor of Economics
Union County College
Cranford, N. J.

The objectives of debt management by a corporation and by government differ significantly. To carry Blinder's idea to its logical conclusion, the government could simply print money or borrow at zero interest rate from the Federal Reserve System.

Monetizing the debt is inflationary. Short-term advantages are offset by long-term destabilization.

Rolf A. Weil
President Emeritus
Roosevelt University
Chicago

PILOTS' PAY HASN'T REALLY TAKEN OFF

In your article "Still shaky, even after the shakeout" (Industry Outlook, Services, Jan. 13), you stated that "in the past year, United, American, and

Delta all succumbed to union demands and hiked their pilot rates to new highs."

As a Delta pilot and a member of the Air Line Pilots Assn., I must shed some light on that slanted statement. First, when we signed our contract in September, 1990, Delta had enjoyed a long period of record profits. Other Delta employee groups received raises and bonuses during that time as well. Yet pilots' raises still did not keep pace with inflation.

Second, we received raises in exchange for greater productivity—a trade that will save Delta millions of dollars during the life of the contract. As employees concerned with our company's long-term growth and profitability, pilots have been—and will continue to be—responsive to the needs of our airline. In return, we expect to be compensated fairly.

As the airline industry continues to shake out weaker carriers, maybe it's time to take a closer look at those carriers that have survived. Although fuel prices and the economy will continue to fluctuate, a labor force treated fairly and with respect will provide what is most important: quality service that

keeps its airline in the air. And that's the bottom line.

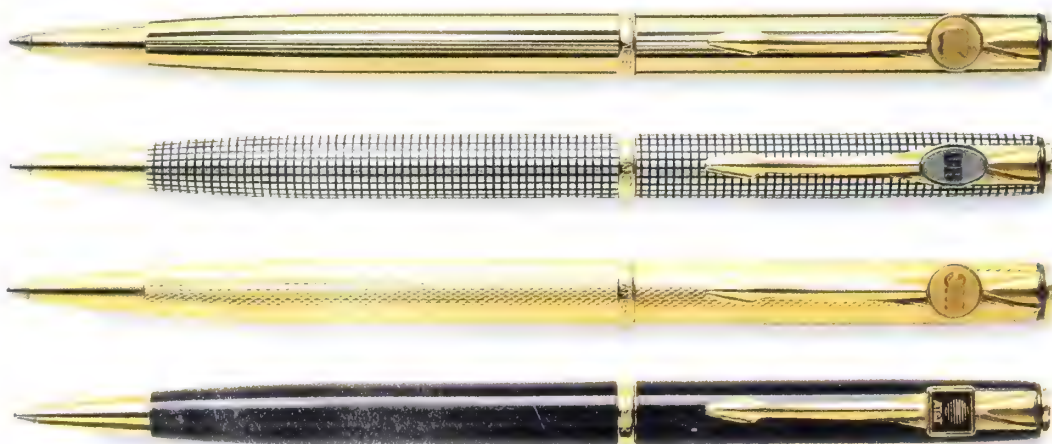
F. Rhea Nichols
Captain, Delta Air Lines Inc.
Air Line Pilots Assn.
College Park, Ga.

Your otherwise excellent report on the airline industry shakeout incorrectly stated that United pilots' salaries would rise 30% over the next three years. While United Airlines was successful in agreeing to phase out novice pilots' 30% pay disadvantage (the "B scale"), most United pilots will receive four 4% raises over the 3½-year contract, in return for increased productivity. By 1994, United pilots' pay rates will have averaged increases of about 3½% a year over the previous nine years—hardly "troublesome," I would think.

Patrick Palazzolo
Communications Chairman
Air Line Pilots Assn.
San Francisco

Letters to the Editor should be sent to Readers Report, Business Week, 1221 Avenue of the Americas, New York, N. Y. 10020. Fax: (212) 512-4464, Telex: 12-7960, Intl. 4998204. All letters must include an address and daytime and evening telephone numbers. We reserve the right to edit letters for clarity and space.

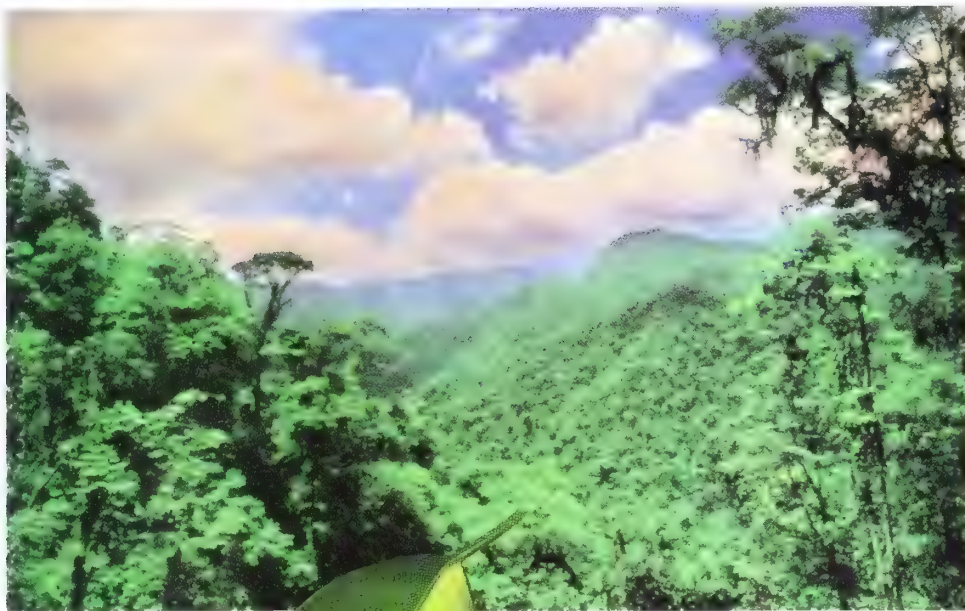
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THE IMAGE OF THE FUTURE.

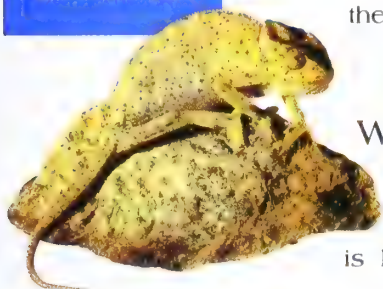
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RISING SUN

Michael Crichton
Knopf • 355pp • \$22

A COP AND A VILLAIN CALLED JAPAN

The setting is Los Angeles of the near future. A beautiful woman is murdered at the grand opening of Nakamoto Tower, headquarters of a powerful Japanese conglomerate. Called in to investigate, LAPD Lieutenant Peter Smith stumbles into a nightmarish world of Japanese influence-peddling and espionage. Japan's economic tentacles, he discovers, extend throughout American life, from corporate boardrooms to universities, the mass media, the government, even the Special Services Division where Smith works. Japan's game plan: to expand in the U.S. market, scoop up useful technologies, silence protest, and secure a grip on markets of the future.

By the time the murder is solved in Michael Crichton's *Rising Sun*, Lieutenant Smith has learned much more than the killer's identity. He recognizes the vulnerability of U.S. institutions and the importance of maintaining a strong high-tech industrial base. He has also completed an intense course in current, critical thinking on Japan.

For the analysis at the heart of this didactic novel, Crichton leans heavily on four prominent "revisionist" writers on Japan: Clyde V. Prestowitz Jr., Pat Choate, Karel van Wolferen, and James Fallows (yes, this thriller has a bibliography). He condenses volumes of history and sociology into the speeches of a handful of characters whose main purpose is to explain Japan to Lieutenant Smith. Chief among them is John Connor, a retired cop who lived for some years in Japan.

Rising Sun sometimes totters under its ideological burden. The dialogue is weighted with homilies, and Japan's threat to the U.S. is overstated. Still, Crichton's well-crafted plot and best-selling track record almost ensure his ideas will reach a mass audience.

His timing is extraordinary. George Bush's recent Tokyo visit put America's relationship with Japan in the spotlight, and the coming election should keep it there. At the same time, think tanks,

watchdog organizations, and congressional committees are producing more precise data on the nature and impact of Japan's economic presence in the U.S.

Some of that information echoes the ominous chords Crichton strikes. Last month, Washington's Center for Public Integrity reported that, over the past decade, Japanese interests have funneled more than \$4.5 billion into U.S. scientific, educational, and economic policy institutions, mainly to gain access to cutting-edge technology. But in Japan, foreign companies have no such opportu-

nies or other Japanese customers—then to U.S. buyers. In a General Accounting Office investigation last year, half the 59 U.S. electronics companies questioned complained that Japanese suppliers had denied or delayed purchasing requests.

On the whole, Crichton shapes these elements into a convincing story, but there are lapses, including some glaring factual errors. For example, recounting a famous 1986 bid by Fujitsu for Fairchild Semiconductor, Connor declares, incorrectly, that the Silicon Valley pioneer was later sold to France's Groupe Bull.

The novel's chief weakness is Connor's characterization. To convey his expertise, Crichton has him lapse incessantly into Japanese. But this makes Connor seem a show-off. Smith finds his mentor so reserved and secretive that "I thought Connor had become Japanese himself." In fact, Connor never stops lecturing Smith on how the Japanese think and why they act so badly.

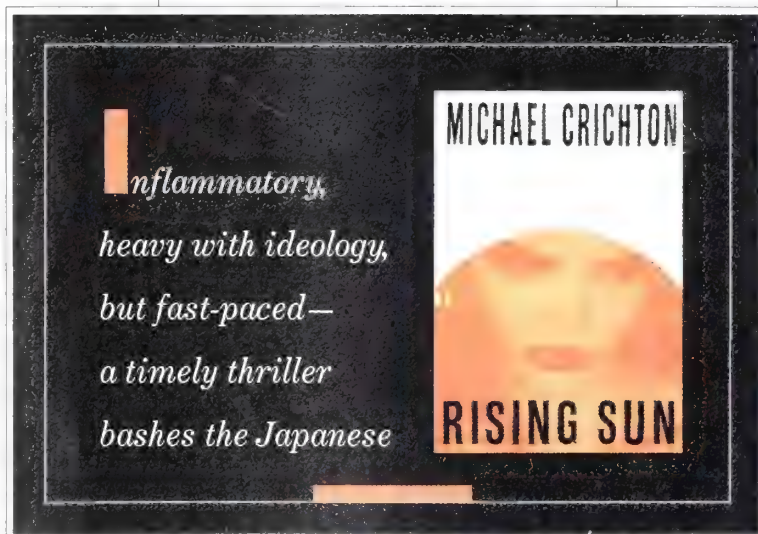
He's a font of stereotypes. Japanese avoid confrontation and "find big arm movements threatening." They have "never been guilty or embarrassed about sex." They think anyone who's not Japanese is a "stinking, vulgar, stupid barbarian." Hyperbole marks these harangues. In Japan, "every criminal gets caught," and the conviction rate for major crimes is 99%. "Trains are on time, bags are not lost, connections are not missed, and deadlines are met."

For all the sermonizing, though, the action in *Rising Sun* unfolds at a breathless pace. And the comic-book portrait of the Japanese does not obscure the book's stark conclusions: "If you sell the country to Japan then they will own it..." Smith muses at the end. "And people who own things do what they want with them."

Lest the point be missed, Crichton sums it up in a brief afterword. During the Meiji Restoration of the late 19th century and again after World War II, he notes, Japan relied on Westerners to help rebuild the country. "The Japanese invited thousands of experts to visit—and then sent them home again," he writes. "We would do well to take the same approach. The Japanese are not our saviors. They are our competitors. We should not forget it." In *Rising Sun*, Crichton hammers a bit too hard. But most of the time, he hits the right nails.

BY NEIL GROSS

Gross covers high technology from Tokyo.



nities. Japan's best research is locked in the labs of private corporations, shielded from takeover by the *keiretsu* system.

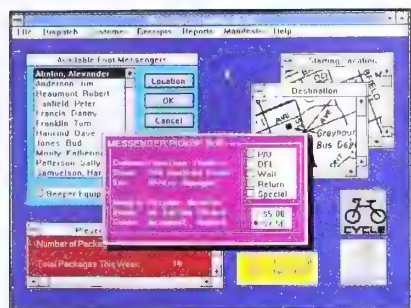
Outside universities, America's greatest high-tech treasures belong to small companies, easy targets for Japanese acquisition. And—as Connor states—statutes governing foreign ownership of U.S. companies are ineffective barriers. Only one law, Exon-Florio, calls for Presidential review of high-tech acquisitions; it is confined to technologies that bear on defense and national security.

Rising Sun also sounds a warning about Japanese monopolies in high-tech industries. In a key subplot, the Nakamoto group tries to buy America's last maker of semiconductor equipment, intending to drive the U.S. out of downstream businesses such as computers. In reality, there's evidence that Japanese who dominate certain technologies allocate their products first to sister compa-

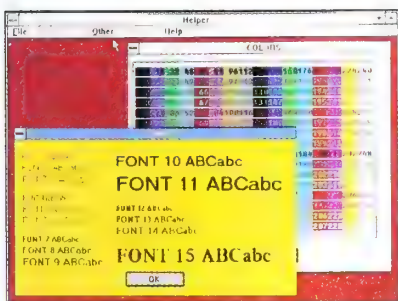
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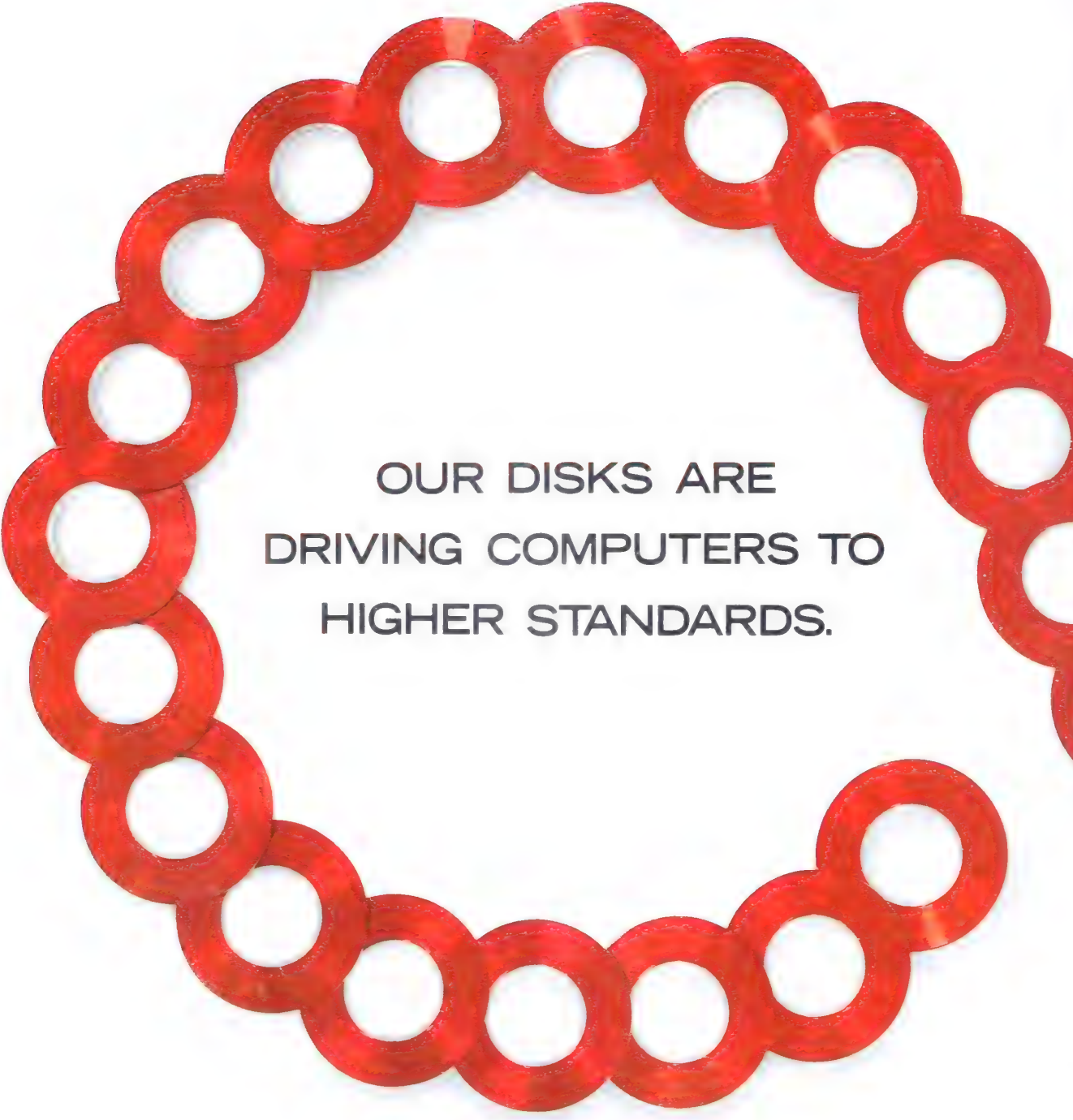
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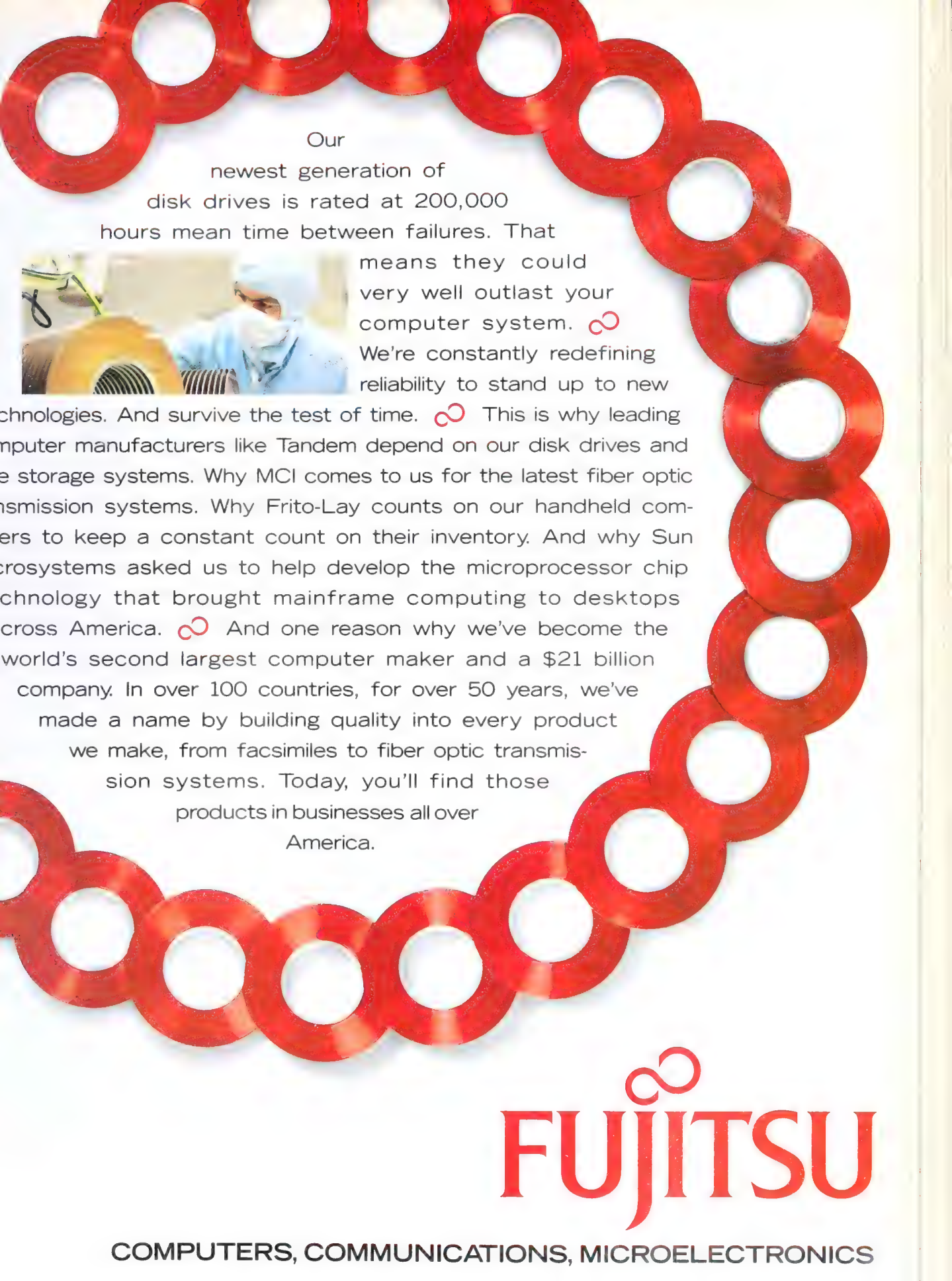
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COMPUTERS, COMMUNICATIONS, MICROELECTRONICS

THE DAYS OF OZZIE AND HARRIET ARE GONE FOR GOOD

BY ALAN S. BLINDER



For many of us, the 1950s set a high standard. But they were a quirk of history that distorts our view of America's rightful place in the world

America could use a good, stiff dose of optimism right now. Here's some: Having just successfully completed a 75-year struggle with totalitarian communism, we are more secure now than at any time in two generations. Contrary to popular myth, American workers remain the most productive on earth—on average (though, unfortunately, not in every industry). Despite the shrinkage of some prominent industries such as autos and steel, the overall share of manufacturing in U.S. gross national product is not in decline. Productivity growth in U.S. manufacturing actually accelerated in the 1980s. And finally, and especially important today, recessions do not last forever—even though people at the time often think they will.

Saying all this brings to mind a line from *The Wizard of Oz*: "Toto, I don't think we're in Kansas anymore." Americans must realize that we no longer live in the 1950s and never will again. A perceptive article in *The Economist* last October suggested that:

- Americans are haunted by the memory of the 1950s.

- We might feel better about ourselves if we shook it off.

- We should shake it off—not because our memories are faulty but because the '50s were historically abnormal in almost every respect. It is on this last point that I wish to elaborate.

America was already a great trading nation by 1914. Our people were among the richest on earth, our industry on the cutting edge. But no one thought of us as the world's leader. Then, Europe, Russia, and Japan spent three decades shooting themselves in the foot, the hand, and, in some cases, the heart while the U.S. flourished. World War II, which so devastated Europe and Asia, was a tremendous boon to the U.S. economy. After the war, few questioned America's right to remake the world economy, for there was no other candidate. And we did a good job. The postwar economic miracles in Germany and Japan, a freer and more open world trading system, the International Monetary Fund, the World Bank, and much else bear the stamp of American influence. By 1950, the U.S. occupied a position of economic preeminence rarely equaled in world history—and unlikely to be attained again.

HALCYON DAYS. There's the rub. Although they were historically aberrant, the 1950s have a strong hold on our memories and distort our view of America's rightful place in the world. Why? Probably because it is natural to look back wistfully on "the good old days" of our youth. Like most societies, contemporary America is run by people between the ages of

40 and 65: They dominate business, government, the educational system, and the media. Americans who are now aged 40-55 grew up in the 1950s—which, socioeconomically speaking, began in 1948 and ended in 1963. Americans now 55-65 were young adults then, but they can hardly look back on the Great Depression and World War II as the halcyon days. So they, too, swoon over the '50s.

Doubtless the lens of memory is rose-colored. America certainly had both social and economic problems back then. But, economically speaking, those old days really were good. The rest of the world eyed us enviously, like children with their noses pressed against the glass. We had toasters, tail fins, Disneyland, and Elvis. No one else did. American incomes were growing rapidly, and families were stabler than today: Ozzie and Harriet were for real. The problem is that this period was abnormal in almost every respect. But our country's earlier history is something we read about in books, not something we experienced personally, and hence it is much less vivid.

THE IMMIGRANT 'FLOOD.' The contrast is especially stark when it comes to America's relative economic position in the world. Our share of world GNP has fallen sharply since 1950, a fact often offered as evidence for our decline. But how many people know that the U.S. produces about the same share of world output today as in 1914? Another example is import competition. America was unusually insular in the 1950s: Merchandise imports amounted to only about 3% of GNP. Today's corresponding share of 9% therefore seems startling. But the figure was about 6% in 1914.

A third example is foreign investment in the U.S. Because there was so little in the 1950s, foreigners are now seen as "buying up America." But foreign investment in the U.S. was larger relative to our GNP in 1914 than it is today. The British bought Pillsbury Inc. in 1899, just as they did in 1989. A final example is immigration. Worries about how we will absorb the "flood" of immigrants seem justified only when judged against the low immigration numbers of the 1950s. A much less populous America took in many more immigrants in the decade before World War I than it did in the 1980s.

The U.S. was transformed by historical accidents from a leading, but not dominant, nation highly integrated with the world economy on the eve of World War I into an insular superpower by the 1950s. It couldn't last, and it didn't. Once you realize that much of what is viewed as America's decline is merely a return to normalcy, it doesn't seem so bad.

ALAN S. BLINDER IS THE GORDON S. RENTSCHLER MEMORIAL PROFESSOR OF ECONOMICS AT PRINCETON AND THE AUTHOR OF *GROWING TOGETHER*

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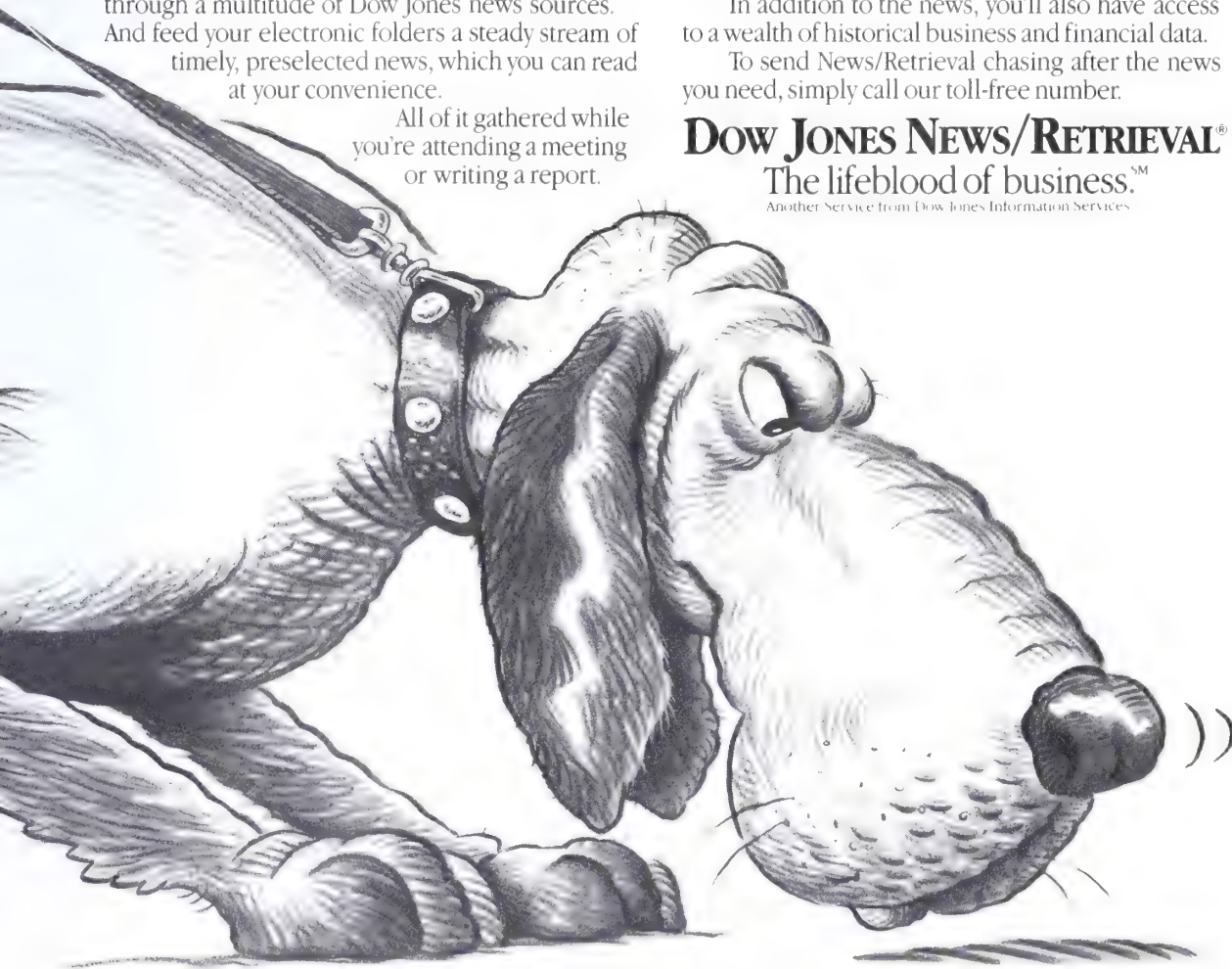
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BY GENE KORETZ

HIGH TAXES ARE NOT WHAT'S AILING THE U.S. ECONOMY

As the President's State of the Union Message demonstrates, there's little doubt that most Americans will be proffered some sort of tax relief by November. Politicians don't have to read the opinion polls to know that the American people's traditional hostility to taxes has been exacerbated because the latest round of tax increases—at federal, state, and local levels—occurred in the middle of a recession. Tax cuts, they argue, will not only assuage those feelings but also provide the fiscal thrust needed to get the economy moving.

But while tax cuts may provide some short-run stimulus, the real question is whether they will help cure the nation's

economists Louis Ferleger of the University of Massachusetts and Jay Mandle of Colgate University estimate that the U.S. has the least progressive tax system of major industrial countries—that is, it imposes the lowest taxes on high-income earners relative to the taxes levied on average workers.

What of the impact of taxes on economic growth? Barnes finds that when one looks at 1971 to 1989, "the majority of European countries achieved much faster growth than the U.S. despite heavier tax burdens." And Mandle and Ferleger find "no statistically significant relationship" between growth and tax loads among 14 major industrial nations from 1980 to 1987.

Perhaps the most comprehensive inquiry into the subject is a study by University of Tennessee economists Charles B. Garrison and Feng-Yao Lee in the current issue of *Economic Inquiry*. An earlier study in the same journal, on taxation patterns and economic activity in 63 countries in the 1970s, found that an increase in marginal tax rates reduced the level of economic activity. Garrison and Lee extended the study period for the same 63 countries to 1985.

Their results showed no significant relationship between marginal tax rates and either levels of economic activity or growth rates for that extended period. Moreover, when they looked at industrial nations and developing countries separately, they found no relationship between marginal tax rates and growth rates or economic levels in either the 1970s or the early 1980s.

"Our results," says Garrison, "suggest that economic growth depends far more on aggregate demand and the state of a nation's human, technological, and physical resources than on the incentive of low marginal tax rates." Martin Barnes puts it this way: "There's no question that high tax rates can stifle increased effort and investment, but other factors appear to be more important in achieving long-term growth."

IS THIS ANY WAY TO TRIM FRINGE-BENEFIT COSTS?

High benefits costs may be contributing to the recent surge in layoffs. Based on data from some 800 companies, Wyatt Co. consultants report that the annual cost of employee benefit packages—including pensions, savings plans, and health care—runs from an average of \$7,900 for those earning \$24,000 to \$9,400 at the \$35,000 level to \$17,000 for an employee making \$75,000.

Meanwhile, economist Richard S. Belous of the National Planning Assn. notes that a number of companies that fired white-collar, professional, and technical workers in recent years have hired many of them back as "contingent," or contract, workers. "This has not only saved employers the heavy cost of fringe benefits," he says, "but helps explain why unemployment is not higher."

THE HIDDEN MESSAGE IN THE METALS MARKETS

Because silver and gold are both precious metals, their prices naturally tend to move together in commodity markets. But sometimes the differences in their movements are an important clue to the developing economic outlook.

That, in fact, seems to be the case in recent weeks: Silver prices have shot up as much as 14%, while gold has edged higher by only 2%. The reason for the difference, says precious-metals trader Denise Giordano of Swiss Bank Corp., is that "silver is as much an industrial metal as it is a precious metal, and silver investors seem to be betting that economic recovery lies ahead." Gold, on the other hand, mainly responds to changes in inflationary expectations.

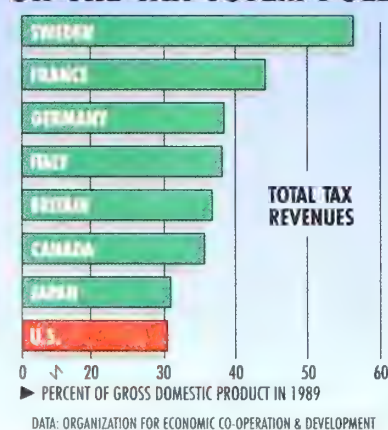
The market's message, according to Giordano: "So far, the subdued outlook for inflation has not changed much despite the view that an incipient economic recovery is coming."

TRADING WITH JAPAN: WHAT A DIFFERENCE THREE DECADES MAKE

Sometimes, news events seem to resonate with symbolism. Take the hoopla attending the recent opening of a Toys 'R' Us store in Japan. Older Americans remember when cheap toys were Japan's best-known export to the U.S.

Similar ironies attend the current drive to boost U.S. car exports to Japan. Back in 1960, the U.S. was first among nations in domestic car output and Japan a distant eighth. By 1990, Japan was first and the U.S. second. But "the actual role reversal was far greater," notes economist David Littman of Detroit's Manufacturers Bank. In 1960, Japan produced just 1.3% of the world's cars and the U.S. made more than 52%. By 1990, Japan's share had soared to 28%, while the U.S. share had shrunk some two-thirds to 17.1%. Cars, of course, are worth more than toys.

AMERICA: LOW MAN ON THE TAX TOTEM POLE

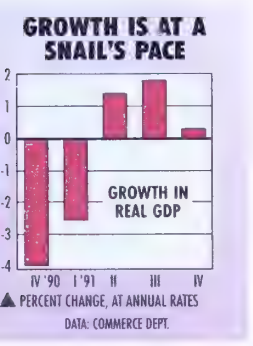


long-term economic woes. Many Americans feel they are laboring under an unfair and crippling tax load. And a number of politicians and economists, particularly those of the supply-side persuasion, argue that rising taxes are a root cause of the nation's economic malaise and may even have contributed to the massive federal deficit. In their view, lower taxes and tax rates are needed to keep the economy expanding at a healthy pace in the years ahead.

The problem is that the empirical evidence for these positions is lacking. As economist Martin Barnes, managing editor of *The BCA Interest Rate Forecast*, notes, counting taxes at all levels of government as a percent of gross domestic product, "the U.S. has the lowest tax burden of any major industrial nation." As for marginal tax rates, in a recent issue of *Challenge* magazine,

THE JITTERY BOND MARKET WARNS WASHINGTON: TAKE IT EASY

When do tax cuts hurt the economy? Answer: When the bond market is already terrified at the prospect of a \$400 billion federal deficit. Right now, that very fear is pushing up long-term interest rates just when the economy is struggling to recover. The bond market is worried that excessive Washington giveaways, on top of the monetary stimulus that the Federal Reserve has already put into the pipeline, will only fuel inflation and create an avalanche of new Treasury debt for the market to digest.



The result: The rate on 30-year Treasury bonds, which had fallen to less than 7.4% in early January, rose to more than 7.7% two weeks later, as talk in Washington turned to tax cuts and other measures bent on stimulating the economy.

The President's State of the Union address on Jan. 28 appeared to ease the bond market's tension the following

morning, since the Administration's package is not very stimulative and technically isn't a budgetbuster. However, later that day, the bond market fell apart, pushing 30-year yields to nearly 7.8% amid worries that Congress might throw fiscal responsibility to the wind.

THE FIRST QUARTER IS OFF TO A BAD START

Rates have risen sharply even though there is no hard evidence in the latest data that the economy is about to turn around. Indeed, the initial reports for January are uniformly downbeat, and the Commerce Dept.'s report on gross domestic product in the fourth quarter raised more questions about the current quarter.

Real GDP rose a mere 0.3%, at an annual rate, last quarter (chart). The breakdown shows falling domestic demand and rising inventories—a combination that bodes ill for real GDP growth this quarter, because it suggests that more production cutbacks are on the way.

Both consumer spending and business investment fell last quarter, and defense cutbacks also hit the economy in a big way. The pluses were a pickup in residential construction, some inventory building, and a sizable improvement in the trade deficit.

Overall demand was flat in the fourth quarter, but only because of a strong increase in exports. However, banking on foreign demand this quarter could be risky, because of weakening economies abroad. Sales to U.S. buyers last quarter dropped 1.8%, at an annual rate, and

there is no sign that domestic demand is improving.

Reversing the economy's slump is the focus of the Bush plan. The stimulus from the package is built into the Administration's economic assumptions for the budget deficit, which it projects at \$399.4 billion for 1992. This year, the White House expects the economy to grow a modest 2.2%. That's in line with private economists' forecasts but far below the typical recovery pace.

Moreover, there may be less near-term stimulus in the budget package than meets the eye. For example, the decrease in tax withholdings means only about \$25 to \$30 extra a month in each paycheck. Even if the full \$2 billion a month is spent, the addition to monthly consumer spending will be less than 0.1%.

GREENSPAN SENDS CONGRESS A MESSAGE

Amid the uncertainties over fiscal policy, Federal Reserve Board Chairman Alan Greenspan tried to soothe the bond market's worries. During his confirmation hearings on Jan. 29, he said that the biggest contribution the Fed can make over time is "to achieve price stability." He also warned Congress to avoid "a fiscal hemorrhage" as it debates proposals to boost the economy.

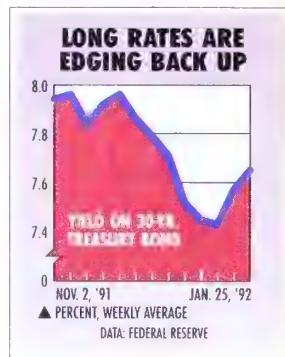
Tax-cut fever puts the Fed back in a familiar box. Even though signs point to continued weakness in the economy, the Fed cannot cut short-term rates further while the bond market is wary of what Congress might do. More monetary stimulus now would only reinforce the market's fears of future inflation and cause long-term rates to rise even more.

Lower interest rates are the single most important ingredient for a recovery, because they address the economy's overriding problem: an unprecedented amount of debt. Businesses and consumers cannot fix their balance sheets without lower rates.

Right now, interest rates are rising although price pressures are nil (chart). Inflation, as measured by the GDP price deflator, fell to an annual rate of only 1.7% in the fourth quarter. They rose 2.1% in the third quarter.

The Labor Dept.'s employment-cost index enhances the inflation outlook. The index rose 4.2% during 1991, down from 5% in 1990. Employment costs are a key inflation gauge because labor accounts for three-fourths of all business costs.

So far, the Fed's sharp cut in interest rates in late



Business Outlook

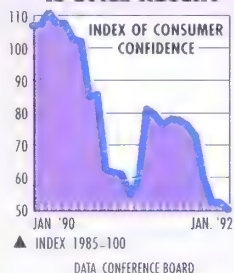
December and talk of tax cuts have done nothing to lift consumers out of their recession blues. The Conference Board's index of consumer confidence fell to 50.4 in January, from 52.5 in December. That's even lower than the reading during the gulf war (chart). Consumers' assessment of their current economic condition deteriorated, as did their expectations for coming months.

JOBS ARE STILL THE CHIEF WORRY

That pessimism is keeping consumers on the sidelines. Christmas was a disaster for most stores, and it caused an unwanted buildup of retail inventories, especially of nondurable goods. After adjusting for inflation, consumer spending last quarter fell at an annual rate of 1.1%, after rising 2.3% in the third quarter.

The problem with consumers can be summed up in three words: jobs, jobs, jobs. According to the Conference Board, one out of four households has a member who has been out of work during the last 12 months. The average length of unemployment was about six months, with one out of three jobless for nine months or more. The percentage of consumers who

CONSUMER OPTIMISM IS STILL ABSENT



think jobs are "hard to get" stood at 46.9%, a bit lower than in December but still exceptionally bearish.

Against this backdrop, it's easy to see why labor costs are easing (chart). The Conference Board also reported that, of all those who were jobless during the past year and are now back in a new job, 45% are earning less than they were in their previous position.

Reversing these job worries is the key to turning the economy around. Until consumers feel secure about their employment prospects they will be unlikely to buy big-ticket, financed items such as cars and houses. Indeed,

the Conference Board said that some 40% of all households deferred a major purchase in recent months because of the weak economy.

Clearly, slack labor markets have restrained the recovery in home buying. Despite the sharp fall in mortgage rates to their lowest level in 18 years in December, sales of existing homes in the month edged up a mere 0.9%, to an annual rate of 3.34 million.

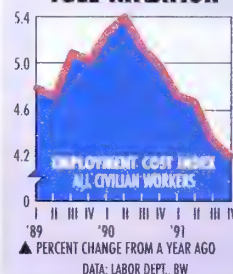
The December advance was the third consecutive gain, and home resales in the fourth quarter were 5% ahead of their third-quarter pace, at an annual rate. The sudden spike in long rates may have caused some house hunters to buy in January before rates rose even more.

The National Association of Home Builders said buyer traffic increased last month, suggesting that the recovery in home sales, although sluggish, continued into January. The Administration's proposed \$5,000 tax credit would add some fuel to the housing recovery. However, since it would help only first-time buyers, the credit will have a limited impact.

The demand for cars, meanwhile, is still skidding downhill. Sales of domestically made new cars sold at an annual rate of just 5.8 million in mid-January, after falling to 5.3 million earlier in the month. Both selling rates are down from the 5.9 million pace of December, which was below November's 6.2 million rate. Auto demand is unlikely to pick up until hirings increase.

Clearly, consumers will have to lead an economic recovery. Tax cuts may well provide the economy with some stimulus later this year. But what households need more right now are jobs and lower interest rates that will ease debt burdens and revitalize spending and output—not election-year giveaways.

LABOR COSTS WON'T FUEL INFLATION



THE WEEK AHEAD

NAPM SURVEY

Monday, Feb. 3, 10 a.m.

The National Association of Purchasing Management's index of industrial activity is expected to be about 47% in January, little changed from 47.4% in December, say economists surveyed by MMS International, a unit of McGraw-Hill Inc. The low reading suggests that the factory sector started 1992 in trouble.

CONSTRUCTION SPENDING

Monday, Feb. 3, 10 a.m.

Spending on building projects probably increased by 0.3% in December, says the MMS report, following a 0.8% decline in November. Most of that drop was in out-for nonresidential buildings. Spend-

ing on housing and government construction projects is increasing.

PRODUCTIVITY AND COSTS

Wednesday, Feb. 5, 10 a.m.

Output per hour worked in the nonfarm business sector likely grew at an annual rate of just 0.5% last quarter, after a 0.7% advance in the third quarter. Unit labor costs in nonfarm businesses probably increased at about a 2.5% annual rate last quarter, following a modest 1.8% gain in the third period.

FACTORY INVENTORIES

Thursday, Feb. 6, 10 a.m.

Manufacturing inventories probably increased by about 0.4% in December, after no change in November.

EMPLOYMENT

Friday, Feb. 7, 8:30 a.m.

The MMS consensus expects that nonfarm payrolls rose by 40,000 in January, after a small 31,000 pickup in December. Factory jobs probably fell by 25,000 slots, the fifth consecutive decline. The January unemployment rate likely remained at December's 7.1% level.

CONSUMER INSTALLMENT CREDIT

Friday, Feb. 7

Consumers added little debt in December, probably about \$500 million, say the MMS economists. That's suggested by the dismal performance of retail sales. In November, installment credit grew by just \$27 million.

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GRAB-BAG ECONOMICS

BUSH'S FISCAL TRINKETS WON'T FUEL GROWTH

In his State of the Union address on Jan. 28 and again in his budget proposal for fiscal year 1993 issued the next day, President Bush stayed the course. The President's growth agenda creates little short-run fiscal stimulus, raises the deficit modestly, and recognizes—but does not really address—the nation's long-term economic problems. The President's men said all along that Bush was suffering from a communications problem, not an economic one. So in the speech, Bush made it plain that he sympathizes with victims of what Democrats are happy to call the Bush recession. "I know we're in hard times," he declared. "But I know something else: This will not stand."

Just the same, neither the speech nor the massive \$1.5 trillion budget offers much to spur near-term growth. Instead, Bush seemed intent on buffing his image without derailing a recovery that his closest aides think is already near. "Although the economy is sluggish," says one Bush adviser, "it is on the way back. Even if there were a silver bullet, there's no need for one now."

STOCKING-STUFFERS. The much-vaunted middle-class tax break turns out to be a \$500-per-child rise in the personal exemption and a tweaking of withholding rates to give taxpayers more now, in exchange for smaller refunds next spring—after the election. The stimulus was kept small to avoid jostling financial markets. But they don't seem impressed, dropping sharply after the speech. The Bush package doesn't figure to spur growth much, loaded with stocking-stuffers for the middle class (table). Says William A. Niskanen, a former economic adviser in the Reagan Administration: "This is not serious. It's not the sort of tax package you would want for the long run."

The big winners: first-time home buyers and real estate developers. Investors would get a tax break on capital gains. Business, which had hoped for relief on capital spending, gets little. Bush's longer-range proposals recognize, finally, the need for dramatic changes in defense and health care policy. But the specifics offer little more than a down payment on both.

While congressional Democrats are grumbling loudly about the package, most believe that its proposals are a good starting point. They should. Many of the provisions have been in the Democratic playbook for years. "We can do business with this," says one top Senate Democratic aide.

Since there will, of course, be much haggling over the details, can Congress pass this package by Mar. 20, Bush's deadline? That's a long shot, but a bill may well be finished by late spring.

The real debate will be over defense: how much to cut spending and what to do with the money (page 27). Bush has proposed cutting anticipated military spending by \$50 billion over the next five years.

Democrats want to cut twice that much, but they're divided over how to spend the peace dividend. Some would use the money to pay for middle-class tax cuts. Others prefer to reduce the deficit. A third group wants to fund domestic programs. Bush wants deficit reduction, but Budget Director Richard G. Darman hints the Administration would agree to use the savings to pay for tax cuts.

STATE OF THE UNION

'I know we're in hard times. But I know something else: This will not stand'



The defense dispute could delay key tax decisions. In the meantime, business will keep a close eye on Capitol Hill to see how the Bush plan fares. Here's a closer look at some details and a preview of how Congress will receive each one:

■ **Capital investment.** Bush would allow companies to take an additional 15% deduction for the cost of equipment they purchase between now and the end of



THE BUSH AGENDA: WHAT FLIES, WHAT DIES

CAPITAL GAINS

PROPOSALS: Bush wants to cut the tax on capital gains to 15.4% for assets held at least 3 years. Democrats will probably go along, for a price

LIKELY FATE: *Pretty much a done deal if Bush agrees to hike taxes on the rich. Look for a Democratic alternative that shifts benefits to the middle class*

MIDDLE-CLASS TAX RELIEF

The White House would raise the personal exemption by \$500 per child. Democrats prefer a credit for lower incomes

Who's going to oppose a middle-class tax cut in an election year?

INVESTMENT INCENTIVES

Bush would allow a 15% deduction for equipment purchased in 1992. Democrats and some Republicans prefer an investment tax credit

Some version sure to pass

TAX HIKE ON THE RICH

Bush rejects it as antigrowth. Democrats, sensing a good issue, will demand it

It's a winner for Democrats

NEW REAL ESTATE TAX BREAKS

Bush would restore a passive loss deduction for developers, give first-time homebuyers a \$5,000 credit, and allow penalty-free IRA withdrawals to buy a house

Bet the house: Most of this will be adopted

DEFENSE CUTS

Bush would slice \$50 billion from planned defense spending over the next five years. Democrats want to cut twice that much

Near-term cuts will be close to Bush proposal, long-range cuts closer to Democratic view. Real fight will be over what to do with the peace dividend

BUDGET DISCIPLINE

The President and top House Dems would keep the framework of the 1990 budget deal. Senators want to scrap key elements

Look for a carefully crafted compromise that no one really understands

tal-gains tax—under certain conditions.

First, they may try to tailor the plan to the middle class. House Ways & Means Committee Chairman Dan Rostenkowski (D-Ill.) may offer a counterproposal similar to a measure that passed the House in 1990. That plan would exempt from tax the first \$1,000 in gains taken each year and provide a onetime \$200,000 exemption for gains from the sale of a home or business. Likewise, the Senate Finance Committee will pass some sort of gains tax cut.

But Democrats in both houses will exact a price: a tax hike on the wealthiest individuals. The increase is not so much to pay for capital-gains relief as it is an attempt to prevent a windfall for the rich. Democrats believe they have a powerful issue in "fairness," and they'll invoke it freely in the coming debate.

■ **Soak the rich.** Bush may actually propose a tax hike for high-income individuals in the health insurance plan he'll offer soon. While he will resist a rise in the top income-tax rate, the wealthy can be hit in other ways, such as a further phase-out of deductions.

■ **Savings incentives.** As proposed by Bush, who has adopted a plan offered last year by Senate Finance Committee Chairman Lloyd Bentsen (D-Tex.) and Senator William Roth (R-Del.), individual retirement accounts would no longer have much to do with retirement. Unlike the current IRA, the new version offers no tax break when contributions are made but allows tax-free withdrawals for any purpose after seven years. This kind of tax-free savings plan is hugely popular on Capitol Hill. But Rostenkowski and other Democrats may insist that Bush find a way to pay for big future revenue losses.

■ **Real Estate.** The President is proposing a cornucopia of new tax breaks for real estate developers and home buyers. First-time home buyers would be able to use their IRAs for a down payment and would enjoy a \$5,000 tax credit as well. Developers could use losses to offset profits from unrelated projects. The proposal enjoys wide support on Capitol Hill, where most lawmakers back a somewhat broader measure.

The tax debate won't be pretty, and a budget deficit that could hit \$400 billion this year will keep a final measure modest. But by springtime, Congress should pass a tax cut that business will like. It may not hasten the recovery much, but it won't hurt much, either. If the economy breaks his way, that may be just enough for George Bush.

By Howard Gleckman, with Susan B. Garland and Brian Bremner, in Washington

the year. This would speed up tax write-offs for equipment but do little to reduce the cost of capital for most businesses. Emil Sunley, a senior tax economist at Deloitte & Touche, estimates that the Bush plan is roughly equivalent to a 1% investment tax credit. Adds Pamela J. Pecharich, director of tax policy at Coopers & Lybrand: "It's going to be a big disappointment to business." Nonethe-

less, a revised version of the Bush plan—possibly a restored investment tax credit—could well pass.

■ **Capital Gains.** The President wants to cut the top capital-gains rate from 28% to 15.4% for assets held at least three years. Despite the rhetorical confrontation over this issue for the past several years, the majority of congressional Democrats will back a cut in the capi-



KERREY VIEWS THE COMPETITION: HIS MEANDERINGS ARE BRUISING HIM IN THE POLLS

A WINTER OF DISCONTENT IN NEW HAMPSHIRE

Bush is taking plenty of flak, but that doesn't make anyone else popular

George Bush couldn't have asked for a better audience. On Jan. 28, 800 members of New Hampshire's business elite gathered in a Manchester hotel to toast their survival in a tough year and watch the President unveil his economic program. On a screen that towered over the ballroom, they saw Bush adopt the martial rhetoric of Operation Desert Storm as he vowed to vanquish the recession with laser-guided tax cuts.

But judging by the muted reaction to his remarks, Bush, in his new role as economic field general, still has a way to go to convince voters that his policies can halt the state's economic malaise. That's why New Hampshire, whose Feb. 18 primary marks the real start of the Presidential campaign, remains a political mine field for the President—and a tempting opportunity for his critics on the left and the right.

BROKEN PROMISE. For Bush partisans, the can-do spirit of the speech struck a responsive chord. "Bush had his Presidential face on," says Franne Ciriello, a former state exec. "That's something we haven't seen much of lately." But elsewhere in the state echoed a different light. "Bush's ideas are good,"

says Sheila Mansur, 33, a pharmaceutical technician from Nashua. "I may vote for him again." Adds Concord lawyer Thomas Rath, a prominent Republican: "Bush wasn't whiny. And his attacks on the credit crunch will go over well here."

But the President still has fences to mend. Kevin Prescott, an electrician with Public Service of New Hampshire, hasn't forgiven him for breaking his no-tax pledge. The speech moved the 36-year-old Prescott from the "no way" column to "maybe." But no further. "The long-term plan had no specifics," says Prescott. "It's almost another campaign promise—and he kicked us last time." Republican Pete Lamson, co-owner of PB Circuits, a small high-tech concern in Hudson, says the President's prescription "is a start. But even if he can get it through Congress, it won't turn around the economy overnight."

Although the State of the Union may firm up the President's New Hampshire base, some onetime Bush backers are shopping for alternatives. Declares Marcia Zahr, assistant to the president of PowerHouse Programs Inc., a family-run telecommunications consulting outfit in Bedford: "I'm not going to vote for

Bush again. We're a classic startup, and we're hanging by a thread. Bush just doesn't seem to care." Instead, Zahr is supporting right-wing insurgent Pat Buchanan. It's embittered voters like her who make Governor Judd Gregg fret: "Buchanan could get 30% of the vote."

Other Republicans, though, can't stomach Buchanan's "America First" pitch. So they're flirting with the Democrats. Mike Danielian, 61, a former contractor from Hampton, turned up at a coffee klatch for Nebraska Senator Bob Kerrey the other day—and pronounced himself impressed. "The Bush Administration has driven me pretty close to bankruptcy," says Danielian.

ZERO CHANCE. Democrats should be poised to tap this vein of discontent. But joy over Bush's troubles has been muted by a growing awareness that the Democratic field is astonishingly weak. Local favorite Paul Tsongas impresses folks with his probusiness message but is given zero chance of capitalizing on a good New Hampshire showing. Iowa Senator Tom Harkin's New Deal nostalgia hasn't caught fire. And Kerrey's meanderings on the stump are killing him in the polls.

Then there's Arkansas Governor Bill Clinton (page 97). He remains the front-runner, but the furor over his alleged extramarital affairs has stopped his momentum, and his ability to weather the crisis is in doubt. "People may initially rally around Clinton," says David W. Moore, a political science professor and pollster at the University of New Hampshire. "But the longer the story drags on, the more shifts there will be to candidates perceived as less dangerous."

If Clinton self-destructs, Democratic leaders may begin a frantic search for a late-starting salvation candidate. Already, backrooms are buzzing with talk of a possible entry by Texas Senator Lloyd Bentsen, House Majority Leader Richard A. Gephardt (D-Mo.)—even New York Governor Mario M. Cuomo, whose Presidential musings never cease. "Clinton aside, this is a pathetic field," says Atlanta pollster Claibourne Darden. "If he gets weaker, it'll create a vacuum that must be filled."

Given the Granite State's tepid response to the State of the Union message, New Hampshire remains risky territory for the President. But barring an unforeseen shift in the political winds, Bush may be able to limp away with only a few flesh wounds from the pesky Buchanan—and a growing sense of confidence that however large his troubles loom, the opposition remains in no position to take advantage.

By Lee Walczak in Portsmouth, N.H., Douglas Harbrecht in Manchester, N.H., and Gary McWilliams in Nashua, N.H.

STATE OF THE UNION

IT'S KIND OF LIKE BUSH TO CONTRACTORS: DROP DEAD'

Defense is already reeling, and the cuts have barely begun

For financially troubled LTV Corp., supplying structural parts for the B-2 Stealth bomber was never just another defense order. The contract, under which LTV builds one-third of each \$850 million bat-winged plane, is the largest in the order book of the Dallas-based conglomerate's aircraft Div. And LTV was banking heavily on selling the aircraft unit to gain the wherewithal to emerge from Chapter 11 bankruptcy.

LTV's prize asset looked more like a liability, though, as soon as President Bush said in his State of the Union message that he wants to cap B-2 production at 20 planes instead of 75. With commitments for 12 B-2s delivered already, LTV said on Jan. 29 that it will lay off 1,500 of 9,800 Aircraft Div. workers by year-end. More cuts are in store for 1993.

LTV isn't alone in feeling the pain of a more peaceful world. From Connecticut to California, defense contractors and their suppliers are reeling from Bush's decision to chop another \$50 billion from defense spending over the next five years. That's just for openers. Democrats on Capitol Hill are clamoring for faster, deeper cuts. The industry is in

"free-fall," warns Hughes Aircraft Co. Chairman Malcolm R. Currie. "It's really going to be a struggle for survival."

The numbers aren't even the whole story. For 40 years, U. S. strategic policy emphasized maintaining a technological edge. Now, Bush plans to reduce long-range nuclear arsenals, potentially eliminating some of America's most advanced cold-war weapons. And in his decision to slash B-2 procurement, cancel the Seawolf attack-submarine program, and kill or defer four Army-modernization programs (table), Bush is signaling a key shift in defense-acquisition policy.

With Russian President Boris Yeltsin's agreement to cooperate in making deep nuclear cuts, there's no need to rush new weapons into the field. Instead, the Pentagon will spend more time and money developing and testing weapons without committing to full production. "We will focus on research and development to create a storehouse of technology, which we can use when needed," says Defense Secretary Dick Cheney.

The new procurement strategy is sending shock waves through an indus-

try used to high-volume production. "It's kind of like 'Bush to Contractors: Drop Dead,'" says Gordon Adams, director of the Defense Budget Project, a Washington think tank. Worries Grumman Corp. President Robert J. Myers: "It's awfully tough to keep an industry going just building prototypes." Some in the services agree. "Many of the problems we have in developing weapons are production problems," notes one Navy official. "Unless you go into production, you don't know if it'll fly."

'GOODBYE.' Just how far the policy shift will go isn't clear. But for many companies, the adjustment is already wrenching. The B-2 generates about half of prime contractor Northrop Corp.'s \$5.5 billion in annual revenues and \$210 million in profits. Cancellation of the \$33.6 billion Seawolf program is likely to force big layoffs at General Dynamics Corp.'s Electric Boat Div. in Groton, Conn. Electric Boat, which employs 15,000 people, had counted on snaring most of the expected 12 contracts for the Seawolf. While the company is working down a backlog of 12 other subs for the Navy, GD officials had earlier warned that Electric Boat might not survive without one new submarine contract a year.

The big defense contractors aren't the worst off. "Most of the major companies will be able to adjust to a scaled-down military budget," says an executive at Martin Marietta Corp. in Bethesda, Md. "It's the thousands of subcontractors and suppliers who will really take a beating." They tend to be far more dependent on a handful of contracts.

Just ask Pericles Haleftiras, president

STATE OF THE UNION



CASUALTIES OF PEACE

System	Big-budget weapons systems that Bush wants to cut		Main contractors
	Proposed cut	Savings through 1997 (Billions)	
SEAWOLF SSN-21 ATTACK SUB	Cancel, except for sole vessel under construction	\$17.5	General Dynamics' Electric Boat Div.
B-2 STEALTH BOMBER	Cap production at 20 planes	14.5	Northrop, Boeing, LTV
COMANCHE LIGHT HELICOPTER	Defer production, build prototypes instead	3.4	Sikorsky, Boeing
AIR-DEFENSE ANTITANK SYSTEM	Cancel	1.7	Martin Marietta
MIDGETMAN SMALL ICBM	Terminate in favor of improvements to the Minuteman III missile	1.0	Martin Marietta, General Electric, Boeing Aerospace

DATA: DEFENSE DEPT.

of Structured Technology Corp. in East Lyme, Conn. Defense generated 85% of the software and electrical-engineering company's \$10 million in revenues last year. Haleftiras expects a 30% cut in contract revenues this year and at least another 30% reduction in 1993. "These are times that can make or break small companies like us," he says.

The winding down of the Navy's F-14 fighter program has been equally devastating for Monitor Aerospace Corp., a small aerospace parts maker in Amityville, N.Y. Monitor President Guy Lepore is trying to win more commercial-aerospace contracts, but the competition—subsidized Korean, Japanese, and Taiwanese suppliers—is extremely tough. "Every two months, it's 'goodbye, goodbye,' another 10 people gone," says Lepore, who has cut employment from 480 in 1989 to 363.

MAJOR BRAWLS. It's likely to get worse. Despite Bush's line-in-the-sand warning that he would go "this deep and no deeper" on defense, Congress will try to whack the military budget even harder. "The biggest threat is not military but economic," says Senate Finance Committee Chairman Lloyd Bentsen (D-Tex.), a longtime hawk who now backs defense cuts of about \$100 billion to help pay for a tax cut. Senator Carl M. Levin (D-Mich.), a member of the Armed Services Committee, predicts: "There are going to be major battles this year." Committee members expect brawls over how deeply to slash the B-2, Seawolf, and F-14 programs, as well as troop size in Europe.

The Democrats' rhetoric may outrun what some of them are actually willing to do, however. When it comes to safeguarding defense-industry jobs in their own districts—especially in an election year—legislators are notoriously parochial. In a sour economy, notes one House Armed Services Committee source, "members don't give a damn about policy. They just want protection."

Amid all the doom and gloom, the Strategic Defense Initiative remains a potentially lucrative source of business for defense companies. The Bush Administration is requesting a \$1.3 billion increase in the Star Wars budget, to \$5.4 billion for fiscal 1993. Martin Marietta is sitting pretty with \$425 million in SDI-research contracts. "If one or more of these programs goes to production, the ultimate value to the contractor could be multibillion dollars in scope," says a company executive. Maybe. But as one weapons program after another takes a hit, even Bush's favored Star Wars could come under the knife.

By Borrus, with Seth Payne in Washington, Driscoll in New Haven, Eric Lipton in Los Angeles, and bureau reports

CORPORATE PROFITS



MOVING AGAIN: SPURRED BY LOW INTEREST RATES, HOME SALES HAVE PICKED UP SINCE FALL

WITH PROFITS PUNY, THE MOOD AMONG CEOs IS SOUR

And it's not getting better—despite upsurges in housing and exports

Centel's yearend numbers were the kind any chief executive would boast about: Powerful growth in the cellular-phone business sparked a 21% increase in fourth-quarter operating profits. Counting one-time gains, net profits soared 158%, to \$25.7 million. But Centel Corp. Chairman John P. Frazee Jr. is hardly beating his chest. "I don't believe our numbers reflect any strength in the economy," he says. "I'm not an economy basher, but I don't think anyone in our industry would tell you that it has turned."

Frazee is hardly alone in his pessimism. To makers of everything from steel and cars to computers and telephones, the forecast is grim. "This is a persistent, deeply rooted recession," says Vincent A. Sarni, chairman of PPG Industries Inc., a Pittsburgh glass-and-chemicals concern. His company's profit fell 69% in the fourth quarter. "The economy remains anemic," he says.

Funny thing is, that anemic economy, which led to such lackluster results for many companies in the fourth quarter (table), may be showing signs of hope. Exports surged 3.7% in the fourth quarter. Sales of existing homes, spurred by low interest rates, are perking up (chart). And the tax cuts proposed by President

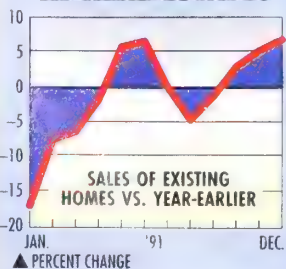
Bush in his Jan. 28 State of the Union address could give real estate a further jolt (page 24).

To many economists, all this suggests a solid economic turnaround by midyear, complete with a rebound in corporate profits. Steven G. Einhorn, market strategist at Goldman, Sachs & Co., sees operating earnings for companies in the Standard & Poor's 500-stock index rising by 10% to 12% for all of 1992. And since he believes corporate write-offs peaked last year, 1992 net profits for the S&P 500 could jump by as much as 33%.

'BY DEFAULT.' With its recent spate of record-setting days, the stock market clearly buys Einhorn's argument. But the bull market isn't cheering up CEOs. "The stock market gets a lot of investors just by default," says Centel's Frazee, noting the poor returns other investments now yield.

Why the doom and gloom? Partly because it has been a miserable three years for big companies. Profits peaked at the end of 1988. Moreover, executives were tantalized with recovery once before. "People were fooled about the economy last spring," says Michael Hines, senior vice-president of Fidelity Investments. "Fewer people are going to see the recovery coming this time."

A SLOW RECOVERY IN REAL ESTATE?



The promise of a rebound seems hollow to companies that slashed payrolls and shuttered unprofitable operations, only to be met with still-falling profits. Take Ingersoll-Rand Co. Blasted by the 1982 recession, the Woodcliff Lake (N.J.) equipment maker radically restructured. "With almost 40% fewer people, 40% less square footage [in factories], and 50% less inventory, we're still putting out the same volumes," says Comptroller Thomas F. McBride. Even so, without inventory adjustments, Ingersoll's fourth-quarter profits would have run flat.

PARBINGERS. Still, signs of eventual recovery are unmistakable. Low interest rates are easing the debt burden on businesses, to the eventual tune of up to \$20 billion annually. And homeowners figure to save \$22 billion in interest this year, says the Mortgage Bankers Assn.

The residential real estate market—the usual engine of recovery—is also reviving. Housing starts rose 2.6% in December, and Merrill Lynch & Co. predicts an added 15% rise in starts in 1992. Meanwhile, sales of existing houses have climbed steadily since September. "The market is getting stronger," says David Liniger, chairman of Re/Max International Inc., the big residential real estate firm. "We're seeing a very, very large number of first-time buyers."

Exports, too, have maintained their strength. U.S. merchandise exports in November hit record levels. And the weakening dollar, down 8% since the middle of 1991, will keep U.S. goods competitive in foreign markets.

But so far, few CEOs are ready to credit the economy with renewed strength—even when their own numbers are improving. Indeed, more than half of the major companies reporting fourth-quarter results so far enjoyed growth. Some showed very good growth: Walt Disney Co., for instance, had a 30% upturn in sales. But it's also true that many eye-popping fourth-quarter gains can be explained by one-time events. Oil-field-services giant Schlumberger Ltd., for instance, says its 104% improvement was mostly due to a \$131 million credit from an asset sale.

Just how deep is the gloom in executive suites? This deep: Computer maker Unisys Corp. reported its first profit in eight quarters. Just the same, CEO James A. Unruh says: "I'm not expecting any help from the economy. I'm not expecting that market conditions will change." All the economists who see crises starting to sprout are betting that executives like Unruh have been down too long to see the thaw.

By David Greising in Chicago and Michael J. Mandel in New York, with bureau reports

THE FOURTH-QUARTER NUMBERS: GLOOM AND A GLIMMER OF LIGHT

	Sales \$ mil.	% chg. vs. 1990	Profits \$ mil.	% chg. vs. 1990	Margins	
					1991	1990
ABBOTT LABORATORIES	1,886.3	+10	314.7	+13	16.7	16.4
ADVANCED MICRO DEVICES	366.2	+38	106.7	NM	29.2	NM
ALCOA	2,434.9	-10	-191.4	NM	NM	NM
ALLIED-SIGNAL	3,004.0	-4	115.0	+7	3.8	3.4
AMERICAN EXPRESS	6,625.1	+5	237.4	+72	3.6	2.2
AMERICAN HOME PRODUCTS	1,819.8	+13	372.6	+14	20.5	20.3
AMERITECH	2,742.5	+2	199.2	-31	7.3	10.6
AMR	3,404.5	+13	-124.9	NM	NM	NM
APPLE COMPUTER †	1,862.6	+11	166.0	+10	8.9	9.0
AT&T	11,945.0	+1	635.0	-22	5.3	6.8
BAXTER INTERNATIONAL	2,390.0	+10	184.0	+3	7.7	8.2
BELLSOUTH	3,694.5	+1	386.9	+7	10.5	9.9
BETHLEHEM STEEL	1,025.7	-15	-638.1	NM	NM	NM
BLOCKBUSTER ENT.	251.4	+40	29.0	+37	11.5	11.8
BOEING	7,753.0	+11	403.0	+27	5.2	4.5
BRISTOL-MYERS SQUIBB	2,937.2	+7	510.0	+20	17.4	15.6
CHAMPION INTERNATIONAL	1,214.8	-3	10.5	-61	0.9	2.2
CHEVRON	10,400.0	-25	39.0	-94	0.4	4.6
COMPAQ COMPUTER	873.4	-13	66.6	-51	7.6	13.5
CONNER PERIPHERALS	417.0	0	13.3	-72	3.2	11.3
CORNING	826.3	+7	85.6	+19	10.4	9.3
CRAY RESEARCH	316.5	+24	59.6	+79	18.8	13.1
CSX	2,276.0	+4	-356.0	NM	NM	5.9
DISNEY (WALT) †	1,936.6	+30	208.1	+22	10.7	11.4
DUN & BRADSTREET	1,255.2	-4	153.4	+13	12.2	10.3
DU PONT	9,765.0	-12	-240.0	NM	NM	4.2
EXXON	30,870.0	-12	1,120.0	-28	3.6	4.4
GENENTECH	108.1	+1	0.1	NM	0.1	16.1
GENERAL ELECTRIC	17,500.0	+2	1,263.0	+2	7.2	7.2
HILTON HOTELS	283.5	-13	29.6	+8	10.4	8.4
IBM	22,082.0	-4	-1,382.0	NM	NM	10.7
INGERSOLL-RAND	933.9	-3	54.7	+20	5.9	4.7
INTEL	1,205.4	+15	188.7	+15	15.7	15.7
INTERNATIONAL PAPER	3,200.0	-3	66.0	+187	2.1	0.7
KELLOGG	1,445.3	+6	118.2	+9	8.2	8.0
MARTIN MARIETTA	1,670.4	+7	44.0	-23	2.6	3.7
McDONALD'S	1,729.8	+2	200.4	+8	11.6	10.9
McDONNELL DOUGLAS	4,777.0	+18	139.0	NM	2.9	NM
MERCK	2,313.9	+10	529.8	+20	22.9	21.1
MERRILL LYNCH	3,122.3	+12	170.7	+463	5.5	1.1
MICROSOFT ††	681.9	+48	175.2	+55	25.7	24.5
MINNESOTA MINING & MFG.	3,224.0	-2	259.0	-12	8.0	9.0
MOBIL	16,628.0	-14	401.0	-38	2.4	3.4
MONSANTO	2,126.0	-3	66.0	+113	3.1	1.4
MORGAN STANLEY	1,787.5	+21	132.3	+127	7.4	3.9
MOTOROLA	3,039.0	+4	126.0	+16	4.1	3.7
NYNEX	3,243.1	-6	-251.3	NM	NM	1.8
PACIFIC TELESIS	2,446.0	+1	158.0	-19	6.4	8.0
PAINWEBBER GROUP	828.2	+19	47.0	NM	5.7	NM
PHILIP MORRIS	13,696.0	-4	1,065.0	+21	7.8	6.2
PROCTER & GAMBLE ††	7,507.0	+9	523.0	+7	7.0	7.1
RAYTHEON	2,429.0	-1	157.8	+10	6.5	5.8
SCHLUMBERGER	1,611.4	+10	305.7	+104	19.0	10.2
SCHWAB (CHARLES)	223.1	+42	16.1	NM	7.2	0.6
SOUTHWESTERN BELL	2,522.4	+3	316.2	+18	12.5	10.9
SUN MICROSYSTEMS ††	909.1	+21	47.4	+21	5.2	5.2
TEXACO	9,755.0	-25	324.0	-17	3.3	3.0
TEXAS INSTRUMENTS	1,752.0	0	-85.0	NM	NM	NM
UNION PACIFIC	1,801.0	-1	184.0	+5	10.2	9.7
UNISYS	2,462.1	-16	80.5	NM	3.3	NM
UNITED TECHNOLOGIES	5,808.3	-2	-1,224.0	NM	NM	2.8
US WEST	3,009.3	+14	-278.4	NM	NM	13.2
USX-U. S. STEEL GROUP	1,306.0	-19	-165.0	NM	NM	3.2
WESTINGHOUSE ELECTRIC	3,417.0	-8	171.0	NM	5.0	NM
WEYERHAEUSER	2,128.9	+2	-256.4	NM	NM	2.8

NM = not meaningful

† First-quarter results †† Second-quarter results

DATA: STANDARD & POOR'S COMPUSTAT SERVICES INC



HONDA'S MARYSVILLE PLANT: 10,200 WORKERS IN OHIO AND NOT A LAYOFF YET

THE BACKLASH ISN'T JUST AGAINST JAPAN

Buying American is in—but what about the Honda worker next door?

It's hard to miss the RobyUSA dealership on the outskirts of Marysville, Ohio. A huge American flag flies outside the glassy showroom of Chevrolets, Oldsmobiles, and Geos. Inside, General Manager Bradford K. Perrine is mulling over how he can take advantage of the Buy American fever sweeping the U.S. One idea: Roby could give extra discounts to employers who offer employees incentives to buy U.S. cars.

But so far, nobody's doing much of that in this West Central Ohio burg. This, after all, is Honda Country. Marysville is home to Honda of America Manufacturing Inc.'s largest U.S. plant, which every day churns out 1,500 Accords. All told, Honda has invested \$2.4 billion in four Ohio plants and engineering facilities and employs 10,200 workers. And, as the region's largest private employer, it hasn't laid off a one.

Still, the area doesn't exactly trumpet reliance on the Japanese auto maker. "More the Grass is Greener," answers a sign as you enter Marysville, the home of Scotts Co., the lawn

care company. Neighboring Bellefontaine (pronounced bell-fountain) highlights its own claim to fame, the first concrete street in America, rather than its nearby Honda plant.

These days, those might be safer points of civic pride than the area's ties to Japan, as Buy American fever infects the U.S. The biggest outbreak? St. Louis-based Monsanto Chemical Co.'s announcement on Jan. 23 that it will give each of its 12,000 employees \$1,000 toward a new car assembled in the U.S., Canada, or Mexico. This came on the heels of Los Angeles County's cancellation of a contract to buy trains from Sumitomo Corp. Then there was baseball Commissioner Fay Vincent's stone-cold reception to news that a 60% interest in the Seattle Mariners could be sold to a Japanese family.

For each Japanese company that might be fretting about the Buy American sentiment, there are stateside businesses looking for an opportunity. At a recent fashion mart in New York, retailers showed new interest in clothes made

in the U.S. At Buick dealer Deane Automotive Center in Denver, foreign trade-ins are up. "They're saying, 'We're going to buy American this time,'" says salesman Allan R. King. And Houston-based Brik Toy Co. had tried for two years to get Toys 'R' Us Inc. to buy its plastic building blocks. Last month, tiny Brik got a yes. Toys 'R' Us Vice-Chairman Michael Goldstein confirms that Brik's "made in America" label was one reason. Says Brik President John C. Brannan: "Vendors who turned us down are now giving us a chance."

The anti-Japanese sentiment is seen in Japan as not much more than a passing fancy. "It's a temporary phenomenon related to the recession," says Masamichi Hanabusa, chief spokesman for the Japanese Foreign Ministry. "There are ups and downs in any nation's sentiment toward its partners."

OUT OF CONTROL? But to some Americans, a certain divide seems to have been crossed. "There is a real danger in the coming year that this thing can get out of control," says a senior State Dept. official. Some U.S. employees of Japanese companies say that's already happening and that they're taking a lot of heat. "Three years ago, if I told people who I was working for, they'd say, 'That's interesting,'" a manager with a giant Japanese trading company reports. "Now they say, 'Why are you working for the Japanese?'"

Back in Marysville, that's not much of a problem. "The thing people say most to me is, 'Are you hiring?'" observes one Honda employee. Besides, most Honda folks figure their cars are as American as those made by the Big Three, citing the 75% U.S. content that Honda says is built into each. Honda worker Janet Miller says she owns a Dodge powered by a Mitsubishi engine. "What's the difference?" she asks.

Some Marysville citizens even suggest that their neighbors could learn something from Honda. Harold "Sonny" South, who works on the Accord assembly line, attributes much of the company's success to an emphasis on team effort. "I'm afraid to say, America doesn't think that way yet," he says.

Not that these Japanese "transplant" workers are entirely unsympathetic to U.S. complaints of a closed market in Japan. And they were a little surprised to hear that a Japanese politician recently called U.S. workers "lazy" and often illiterate. But for some, there was truth to the charges. "It's unfortunate it was said publicly," says Sonny South, "but sometimes it takes a pretty hard-hitting [comment] to get the U.S. to wake up."

By Zachary Schiller in Marysville, with Robert Neff in Tokyo and bureau reports

AMERICA NEEDS PROTECTION FROM THE PROTECTIONISTS

Americans are hurting. And in conversations at work and at home, you can hear an angry argument gathering force. More and more, people are wondering if the U.S. needs to keep out imports to save jobs at home.

And why not? America's Japanese rivals have adroitly manipulated trade flows for years, bolstering their industrial might in everything from cars to semiconductors. Airbus Industrie, heavily subsidized by several European governments, has evolved into Boeing Co.'s strongest competitor. And many economists, once the fiercest proponents of free trade, now acknowledge that in theory nations can sometimes benefit more from import barriers and export subsidies than they can from free trade.

Despite their emotional appeal, such arguments ignore a crucial transformation in the U.S. economy: Over the past five years, the U.S. has gained more from free trade than it has lost. Overseas trade has contributed about 30% of real growth in the economy since the trade deficit peaked in 1986. And the entire 0.3% gain in real gross domestic product in the last quarter of 1991 came from exports. "Export growth is our best prospect for stimulating an economic recovery this year," says Jerry Jasinski, president of the National Association of Manufacturers.

PUSH AND PROD. True, Japan's market, the world's second-largest, is still inhospitable to too many American companies. But there's no gainsaying the successes achieved over the past decade. Under intense pressure, Japan has been grudgingly opening up its computer, financial services, and other industries, and U.S. exports there are up from \$28 billion in 1987 to about \$48 billion in 1991. The White House, the Administration's trade negotiators, and Congress should continue to press for ever more market access—there and elsewhere.

Take the long view, and you'll find the case for free trade grows even stronger. The research, development, and technological innovation that make

the U.S. more competitive are global skills forged by white-hot international competition. Look at IBM. It owns research and product-development laboratories in a number of countries, which is one way to keep on top of ideas generated throughout the global marketplace. Companies sheltered from the demands of overseas competition have less reason to stay current. Without outside pressure, it's not likely

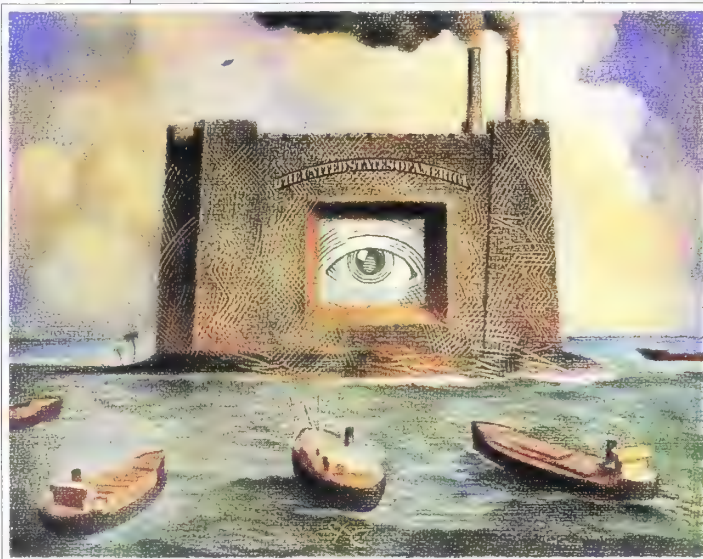
often costs consumers a bundle. For example, apparel and textile protection is adding about \$20 billion annually to consumers' bills, estimates William R. Cline, senior fellow at the Institute for International Economics. The developing countries of Latin America also learned the hard way that erecting trade barriers to nurture domestic industries isolated them from global technological progress and helped condemn them to years of stagnation.

By contrast, foreign trade is boosting America's bottom-line prospects. The U.S. trade balance with Western Europe, for example, has swung to a \$10 billion surplus from a \$35 billion deficit in 1986. Indeed, America's share of total exports among industrialized nations is up from 15.2% in 1985 to around 18% last year, figures Mark Zandi, economist at Regional Financial Associates Inc.

The U.S. could be even more competitive than those numbers suggest. A recent National Research Council study estimates that the official tally of annual U.S. exports could be too low by some \$10 billion to \$20 billion.

Corporate America's stellar trade showing should only improve. The dollar remains somewhat undervalued relative to other major currencies. Yes, that advantage could vanish overnight. But U.S. companies now benefit from a more lasting change: a cost of capital that's close to what their foreign rivals pay. Another long-term plus: America's hourly labor costs are among the lowest in the industrialized world, and labor productivity growth is strong.

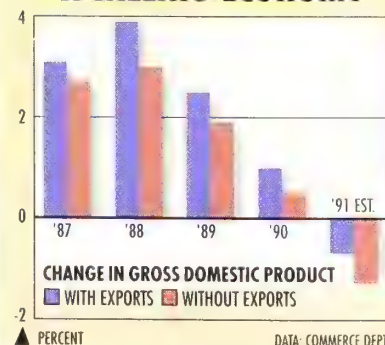
As should be clear by now, the U.S. has little to fear from free trade. The true risks come from skimping on investment, both public and private. In this area, the U.S. needs to catch up to Japan and Germany. The argument shouldn't be over whether to keep out Japanese cars—that wrongheaded trade policy would only reverse Corporate America's recent strides. The better course is to find the best ways for the U.S. to use its resources to remain a robust global competitor.



that quality would be such a high priority at companies such as Motorola, Ford, and Alcoa.

History, too, argues in favor of free trade. Since 1950, worldwide trade has grown by about 6% a year, more than 50% faster than the growth in output. "One of the things spurring growth over the past 40 years is that trade got freer," says Lawrence H. Summers, chief economist at the World Bank. And when the U.S. puts up barriers it

U.S. EXPORTS CUSHION A FALLING ECONOMY



CHRYSLER MAY ACTUALLY BE TURNING THE CORNER

Costs are down, new models are sleek. But are any buyers out there?

Breaking even is hardly a chief executive's idea of dreamland. But on Feb. 6, when Chrysler Corp. is expected to announce that it just about broke even in 1991's fourth quarter, Lee A. Iacocca may be excused if he sleeps a little easier than his crosstown rivals. While he has cut Chrysler's losses nearly to zero during the worst auto sales drought in a decade, rivals Ford Motor Co. and General Motors Corp. are expected to announce combined losses of about \$1 billion for the quarter.

Surprised that Chrysler's doing so well? You're not alone. For years, competitors have contended that the No. 3 U.S. auto maker is too small to survive

dans due out this fall. Plus, the new models are all in higher-margin niches.

But Chrysler's biggest edge may be the effectiveness of its cost-cutting. The company has chopped \$3 billion out of costs over three years, Iacocca says. Along the way, Chrysler axed 15,800 employees, more than a third of them bearing white collars, which it claims saves \$660 million annually. Yet it has often managed to speed up operations. For example, its parts-distribution operation has cut inventories by 50%. That saves cash and cuts the time it takes to

trim the product development cycle by a year, to 3½ years—close to the three years typical for Japanese rivals.

Another Japanese-style innovation: co-operating more with suppliers. Chrysler says its annual spending on parts and raw materials is down \$900 million, partly because it increasingly lets suppliers engineer their own components.

PINCHED ARM. The question now: Does Chrysler have the financial oomph to make it if the auto slump persists? Just launching new models this year will cost \$3.5 billion. Iacocca says he can finance that out of cash flow and another \$750 million in cost-cutting. One area ripe for savings: the time it takes to ship cars to dealers, which Chrysler aims to cut to 20 days from a Detroit average of 70 now.

But Iacocca may hit trouble if auto sales don't pick up soon.

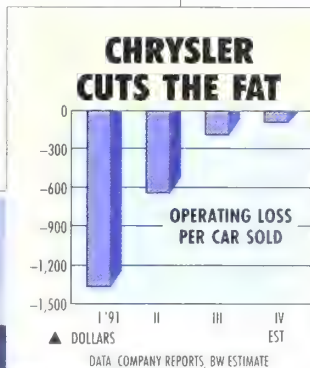
Last year, Chrysler spent \$2.7 billion on incentives to move the iron during the slump—and it probably can't reduce such spending much unless the market firms. "I can control my costs, [but] I can't control what the public will pay me for my cars," Iacocca notes.

Chrysler Financial Corp., the company's finance arm, is already being pinched by its parent's downgraded credit ratings. That vise will tighten by mid-1993, when up to \$11.5 billion in CFC's short-term debt comes due. Iacocca is negotiating with his banks to refinance the debt. Meanwhile, says Scott Sprinzen, vice-president for corporate finance at Standard & Poor's Corp.: "Everything depends on the success of those new products and the state of the marketplace. It's a high-risk situation."

In the near term, Chrysler is flush. It has more than \$2 billion on hand, partly from a stock offering at \$10 a share that raised \$350 million last fall, and an untapped \$1.75 billion credit line. If that's not enough, Iacocca says he's negotiating to sell Mitsubishi back the 11% stake Chrysler owns in the company—which should fetch up to \$500 million. He also may sell more stock.

There's a fair chance Chrysler won't need to go to that extreme. Many analysts predict that lower interest rates and new moves by Washington to pump up the economy will yield an upturn in car sales this summer—just as Iacocca's new cars hit the showrooms. No one is saying Chrysler's a sure winner. But Iacocca plans to retire at yearend, and he's counting on going out to an upbeat tune.

By David Woodruff in Detroit



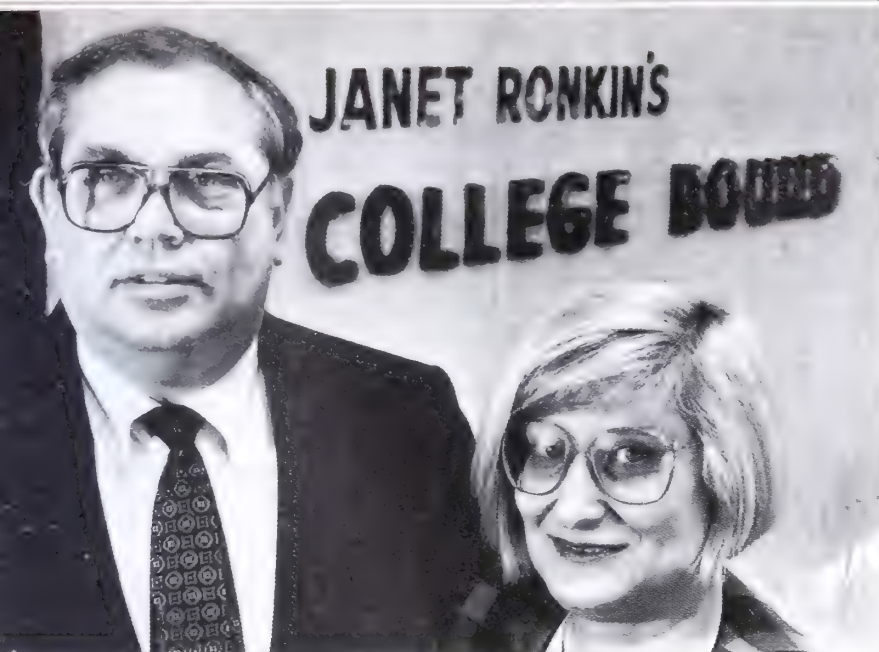
A '93 EAGLE VISION, FROM THE LH LINE: CHRYSLER IS PUSHING HIGHER-PROFIT MODELS

on its own. They could still be right. But lately, a few contrarians have come to believe that Chrysler may be on the verge of a comeback like the one it made after its 1979 government bailout. Wall Street has bid up Chrysler shares by 50%, to about \$15, since mid-December. And Iacocca predicts that with even a modest uptick in U.S. auto sales, Chrysler "will become a money machine."

Much of the optimism is based on the raft of nifty new Chrysler models coming out this year. Dealers and analysts expect strong sales for the speedy Dodge Viper, the Jeep Grand Cherokee, and the sleek new LH line of family se-

deliver parts to dealers to just three days, down from seven.

Some of the biggest savings are from innovations borrowed from such Japanese companies as Honda Motor Co. and Chrysler partner Mitsubishi Motors Corp. For instance, Chrysler engineers no longer belong to groups focused on a single function, such as designing engines. Now they're assigned to teams that design a single model and report to one manager instead of several. That shift, Chrysler says, saves \$475 million a year, partly because better communication among engineers means fewer costly design changes. It also has helped



"WE'RE ALWAYS DEFENDING OURSELVES": THE RONKINS AT THE BOCA RATON OFFICE

IS COLLEGE BOUND FOR REAL? THE SEC WANTS TO KNOW

The agency is examining the test-preparation company's hot stock

College Bound Inc. looks like a perfect hot-growth company. Launched in 1985 to prep students for college exams, the company's founders, former teacher Janet Ronkin and her husband, George, took it public in 1988. Since then, the Ronkins say they've opened 140 centers. Rosy financials, including sales of \$22 million in 1991, have made College Bound's stock a hot ticket: Shares now trade around 18, up from just 5% a year ago (chart).

But like its Boca Raton (Fla.) neighbor, Cascade International Inc., College Bound may be a little too hot for some, including the Securities & Exchange Commission. Cascade folded late in 1991 after Chairman Victor G. Incendy disappeared and the cosmetics and clothing company admitted it had inflated financial results and the number of outlets it owned. George Ronkin says the Cascade debacle has unfairly hurt College Bound. "The worst thing we could have done is move to Boca Raton," he says. "We're always defending ourselves."

SHAREHOLDER SUITS. But it's more than the company's address that has drawn the SEC. It is conducting two probes into College Bound's activities. Last month, a company director, Roland van der Haegen, testified before the SEC about a shell company that College Bound merged with when it went public. The

Ronkins say the SEC is probing that company, not College Bound. But another SEC probe is squarely focused on College Bound. For nearly a year, the agency has been looking into College Bound's skyrocketing stock price. The Ronkins say there's nothing to find. The SEC won't comment on either case.

There also are the two lawsuits filed by shareholders last October in U.S. District Court in Fort Lauderdale, Fla. They charge that the Ronkins have exaggerated the number of centers they own, and that the company's stock has been manipulated. The Ronkins also deny those claims.

But it's the short-sellers who have been College Bound's loudest doubters. These investors, who bet that a stock will sink, naturally have the most to gain by criticizing the company. One short-seller, Steve Carlson, president of Denver-based Aspen Capital, says he visited six College Bound centers last summer and fall and that all had lackluster business. Carlson also enrolled employees in classes. They found just one or two others enrolled, vs. the

12 to 30 students in classes run by competitors such as Princeton Review and the Stanley H. Kaplan Educational Centers. The Ronkins say Carlson may have visited new centers, drawing fewer students. Still, "there's nothing to justify the numbers they are putting out to the public," Carlson says. When BUSINESS WEEK scheduled a Friday afternoon visit to a Coral Gables (Fla.) center, it was packed. On other, unannounced afternoon visits, the center was nearly empty.

To prove their company is for real, the Ronkins showed BW photographs of College Bound centers. Some of the questions about their company, the Ronkins say, result from its relationship with that shell company. But mostly, the Ronkins contend, they are the victims of shorts who are trying to knock down the stock's price by spreading false rumors.

SUSPECT ACCOUNTING. The bears, however, aren't alone in raising an eyebrow over College Bound. American University accounting professor Howard M. Schilit has criticized some of its accounting methods, including having a sole practitioner handle its books instead of an accounting firm. That accountant stands by his audit, while the Ronkins say they'll soon hire a larger firm.

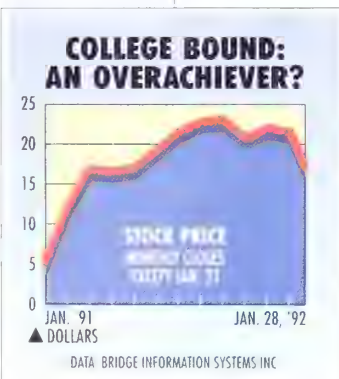
Schilit attributes some of College Bound's fast growth to an accounting treatment that blends the revenues and profits of acquired companies with its own. College Bound doubled its revenues last June, for instance, with the purchase of a \$10 million testing company. The Ronkins say they follow accepted accounting procedures.

Even supporters of College Bound aren't comfortable with all of its accounting practices. Richard Lilly, an analyst with Boca Raton-based brokerage house J. W. Charles, has recommended

College Bound stock. But he says he believes the company's earnings are overstated by as much as 40%, and that the \$17 million in net worth College Bound reported as of Nov. 30 consists of \$15 million in intangible assets. "I think it's a real company," he says. "But the company presents itself a little better than the reality."

For investors, the basic question is simple: Why does a company with no patents and just \$22 million in sales command a market value of \$169 million? The lofty stock price, George Ronkin says, "offers us an opportunity to make the company worth it." If the Ronkins can't, it will be a long way down for investors in this hot-growth stock.

By Gail DeGeorge in Miami



EDITED BY DEIDRE A. DEPKE

CALL THE REPAIRMAN ONE MORE TIME

When General Electric reported earlier this month that 1991 revenues rose just 3%, to \$60 billion, it cited industrywide weakness in appliance sales as one problem. It doesn't look as if those sales are going to pick up soon: Few Americans say they are in the market for a new oven or fridge. Maybe a toaster?

	RESPONSE	
	DECEMBER 1991	JANUARY 1992

Washing Machine 4.2% 4.1%

Washing Machine 4.0 3.5

Television 7.2 6.5

Vacuum Cleaner 5.2 4.9

Refrigerator 2.7 2.2

Clothes Dryer 3.6 2.9

Air Conditioner 1.7 2.0

DATA: CONFERENCE BOARD

KENTUCKY FRIED HITS THE ASSEMBLY LINE

► Here's one American company that figures there's a big future in U.S. auto making. On Jan. 24, KFC said it has granted ARA Services a license to sell Kentucky Fried Chicken products at a General Motors factory in Moraine, Ohio. The goodies, including skin-free crispy chicken, will be served from a free-standing KFC kiosk. KFC says it may expand the idea if all goes well. KFC claims the GM outlet is fast-food's first in a plant—and Burger King and McDonald's don't dispute it.

MORE WOES FOR MIYAZAWA

► A new Japanese financial scandal may overwhelm Prime Minister Kiichi Miyazawa. In the latest wrinkle, a prominent Diet member has accused one of the ruling Liberal Democratic Party's fac-

tion bosses, Hiroshi Mitsuzuka, of taking \$6.4 million in payments from Tokyo Sagawa Kyubin—a parcel-delivery service linked to an alleged \$3.9 billion in payoffs to gangsters and politicians. A Mitsuzuka aide denies the charge. Also, the daily *Asahi Shimbun* reports that Tokyo Sagawa in 1989 backed a successful LDP gubernatorial candidate with \$1.6 million. If the scandal spreads, voters may punish the LDP in July's Upper House elections, forcing Miyazawa to resign.

THE CELTICS MAY HAVE A BUYER

► Boston Celtics owner Don Gaston, stung by bad investments in Boston radio and television, needs an assist. So he has hired Morgan Stanley to drum up buyers for the stations—and the Celts. Now, Morgan has found a live prospect. BUSINESS WEEK has learned that Delaware North, owner of the National Hockey League's Boston Bruins and the Boston Garden—home arena to the Celts and the Bruins—is looking over the Celtics' books.

Owning the Celtics could help Delaware North find financing for a new, 18,000-seat Boston Garden. The credit crunch has stymied plans until now, but if Delaware grabs the Celtics, it would also take a larger share of the \$21 mil-

'... AND YOUR DOOR IS AJAR, CHUMP'

Rap, once the ultimate street phenomenon, is firmly part of mainstream culture. Now, rap has made another conquest—the automobile-accessory market: "Yo. I know you wanna look inside. But I suggest you step away from the ride."

Yes, talking car alarms now speak the vernacular, thanks to Electronic Security Products of California Inc. The Canoga Park company's warning messages change from standard English to rap at the push of a button. Or from English to Spanish for those who live and work in different neighborhoods. One Mercedes buff even special-ordered an English/German version.

Voice alarms work not because of what they say but because they deter vandals before damage is done, claims President Michael Nykerk. His alarm might even discourage would-be looters from coming back: As they move on to the next car, the rap alarm enunciates an ominous "See ya."



lion in annual income from a new Garden's luxury boxes. That might be just what lenders need to approve a loan.

A SWEDISH FREE-FOR-ALL

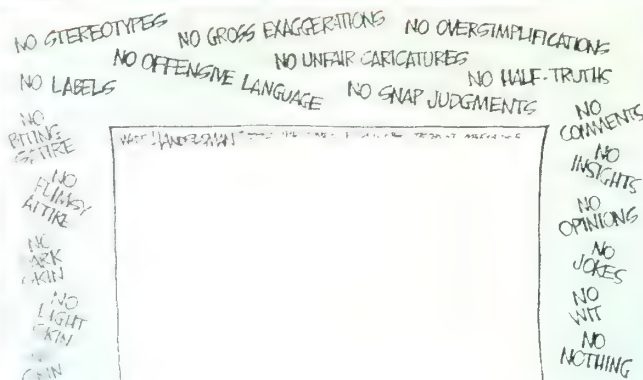
► Sweden's government had planned for months to sell its 42.7% stake in Procordia, a food and pharmaceutical conglomerate partly controlled by auto maker Volvo. But the plan didn't factor in Pehr G. Gyllenhammar, the strong-willed chairman of Volvo and Procordia. On Jan. 25, he announced that Procordia would attempt a \$6.6 billion reverse

takeover of Volvo. Gyllenhammar wants to merge the two because, he says, he feared the state's sale of its Procordia stake would attract predators. Prime Minister Carl Bildt objects to the all-stock deal, in part because it undermines his efforts to boost competition in Sweden.

MACY'S: BLAME HARVARD B-SCHOOL

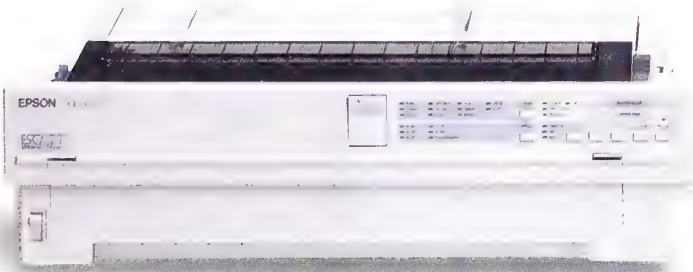
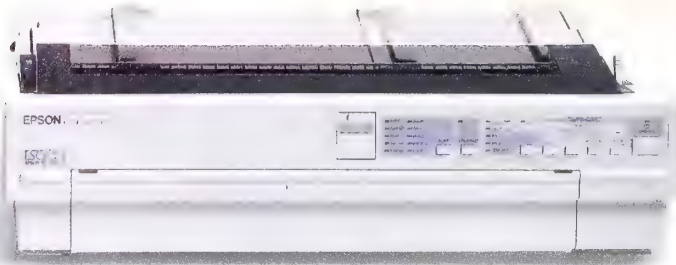
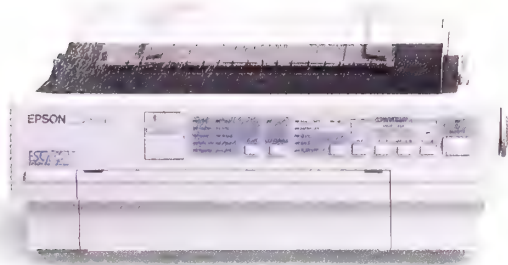
► Macy's bankruptcy papers blame the company's problems on too much debt and lousy retail sales. But Macy's attorney, Harvey Miller, has another scapegoat: "The Harvard business school encouraged leverage," says Miller. "Read that famous article by Professor Jensen."

Miller was referring to Michael Jensen's *Eclipse of the Public Corporation*, published in the *Harvard Business Review*. In it, Jensen argued that managers who invest in their company's leveraged buyouts are likely to be more successful long-term. Macy's CEO Ed Finkelstein is a Harvard MBA, but there's one problem with Miller's logic: Jensen's piece came out in late 1989, three years after Macy's LBO. Jensen, who was in India, couldn't be reached.



THE POLITICALLY CORRECT EDITORIAL CARTOON...

Presenting
The Next Page
In Printer History.
From The Company
That Printed
The First.



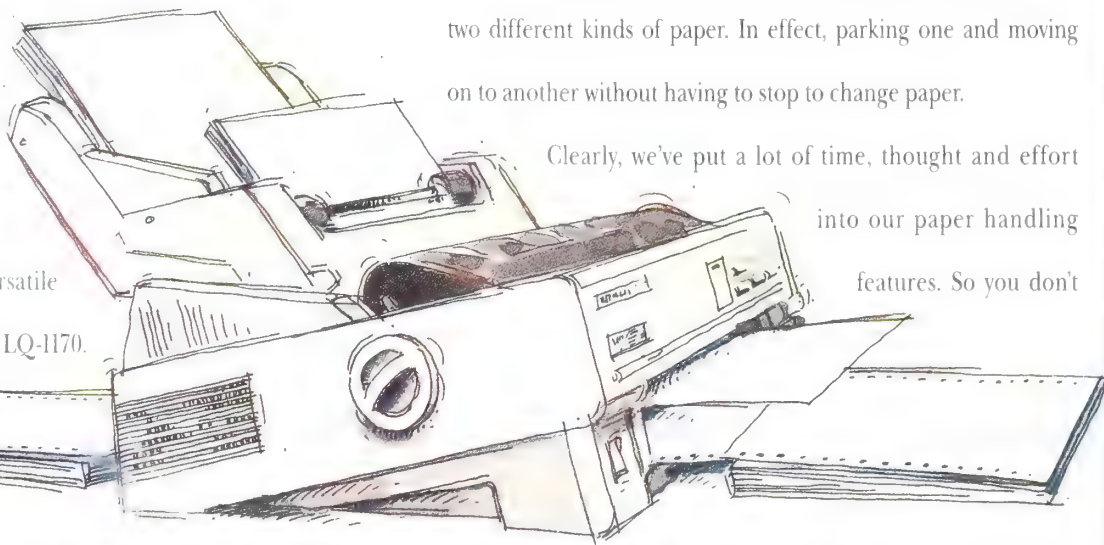
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Introducing six reasons why that leadership is sure to continue: the letter-quality Epson LQ-570, LQ-870, LQ-1070, LQ-1170, ActionPrinter™ 5000 and ActionPrinter 5500.

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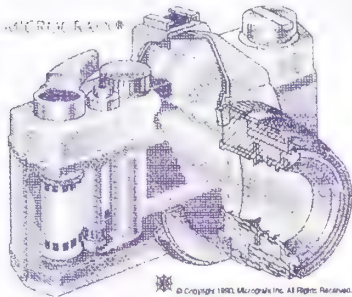
Epson printers aren't only designed with more firsts, they're designed to last. Each is backed by a generous 2-year limited warranty. As well as a helpful toll-free 800 number to provide you with dependable, expert assistance.



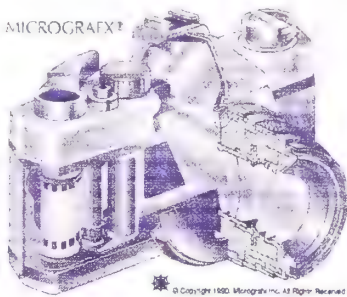
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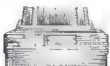
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Epson's enhanced Windows driver improves not only the look of your text and graphics, but the speed at which they print.

EPSON



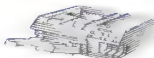
Desktops



Dot Matrix



Notebooks



Lasers



Servers

HOME IS WHERE YOU FIND IT.



It all started when Timmy said she was coming over with a couple of friends

Isn't it funny how so many of the places we find Smirnoff, feel like home.

SMIRNOFF

FOR THE 'ENVIRONMENTAL PRESIDENT,' LOTS OF TREE-HUGGING, LITTLE ACTION

When John H. Sununu was on the ropes at the White House, environmentalists dreamed that the departure of the man who blocked initiatives on global warming and ozone depletion would free George Bush to be the "environmental President." But Bush's biggest worry, the economy, is getting in the way of environmental concerns.

New White House Chief of Staff Samuel K. Skinner and top Bush political adviser Robert M. Teeter think the President needs a greener image for the campaign. "Both Skinner and Teeter understand the importance of environmental issues to a lot of Americans," says a top Administration official. In his fiscal 1993 budget, Bush proposed a 17% increase in spending for national parks and other public lands, and a 5% boost in the Environmental Protection Agency's operating budget.

FADING HOPES. Tree-hugging sentiments may help on the campaign trail, but they're not likely to translate into much action in Washington. Prospects are fading for rewrites of some major environmental laws set to expire this year. And Vice-President Dan Quayle's Council on Competitiveness will stall new regulations even after Bush's 90-day moratorium ends. "There's a search on to reduce regulatory burdens, so environmental politics will be a defensive game," says EPA Administrator William K. Reilly.

One likely victim of the new antiregulation spirit could be the expiring Endangered Species Act, which protects animals such as the northern spotted owl at the expense of the timber harvest in the Pacific Northwest. Bush summed up the conflict while stumping in New Hampshire: "We want to save the little furry-feathery guy and all of that, but I don't want to see 40,000 loggers thrown out of work." Backers of the legislation may have to settle for a short-term extension. Also in trouble: stiffer recycling requirements for business, tighter regulation

of industrial waste, especially from oil and gas exploration, and higher auto-fuel economy standards.

Global warming and wetlands preservation are two big issues the White House can't dodge. Led by Sununu, the Administration has long argued that an international treaty limiting production of carbon dioxide and other "greenhouse" gases would be premature. But Bush's reluctance to be the whipping boy for the global environmental movement at a U.N. conference in Brazil in June may force him to accept new emissions standards. "There will be tremendous visibility at Rio, so the possibility of us alone rejecting a treaty is difficult to imagine," says a senior Administration official.

Bush has been on the defensive over wetlands ever since the Administration proposed narrowing the definition of a wetland to aid builders and farmers. Independent studies have concluded that the new definition might open as much as half of all wetlands to farming or development. During his 1988 campaign, Bush promised "no net loss of wetlands." The Administration may try to finesse the issue by ordering up a National Academy of Sciences study.

That would delay a decision until safely after the election.

Meanwhile, Congress is continuing its desultory efforts to rewrite the Clean Water Act and the Resource Conservation & Recovery Act, which governs waste disposal. While Clean Water's pork-barrel aspects may make it attractive in an election year, business will complain that the regulatory aspects of both it and the RCRA will cost jobs. That may be enough to stall both measures. "Maybe we'll pass something like Cabinet status for the EPA," says a Senate Environment Committee staffer. "But we'll leave the rest for another Congress and get on with economic recovery."

By Peter Hong in Washington



THE EPA'S REILLY: PLAYING "A DEFENSIVE GAME"

CAPITAL WRAPUP

COMPETITIVENESS

Government investment in research and development, says President Bush's new budget, is vital "to boost productivity and improve economic performance." But there may be a lot less help for U.S. industry than Bush seems to promise. Overall federal R&D spending would rise 5%, to a record \$72.8 billion, in 1993. But two-thirds of the \$3.2 billion in new money would go to NASA and the military. Despite the collapse of the Soviet Union, the bulk of new military funds are earmarked for the Strategic Defense Initiative.

The budget does provide significant funding increases for programs that

could directly aid U.S. industrial competitiveness. The budget for high-performance computing and communications research would increase 23%, to \$803 million. Advanced materials R&D spending would rise 10%, and research into nondefense manufacturing technology would soar by 27%. But overall, these industrial technologies account for only 8.5% of federal R&D dollars.

Federal spending for basic research, including health sciences, would enjoy a 7% increase, to \$13 billion, with the biggest chunk going to the National Science Foundation. Other winners are two megascience endeavors—the Superconducting Supercollider and the human genome project.

LOBBYING

Old Washington hands know that anything you put on paper will somehow make its way to an opposing lobbyist. So it's surprising that James C. Mooney, president of the National Cable Television Assn., laid out in a memo to the group's board his strategy for fighting efforts to regulate the industry. His approach: persuade Senators to support a weakened bill while quietly working the White House for a veto of even the watered-down version. The memo fell into the hands of the rival National Association of Broadcasters, which used it to craft counter-moves in the ongoing fight.

The Latin infrastructure needs rebuilding, and governments are looking to their traditional suppliers up north



MAKING A YANQUI BOODLE SOUTH OF THE BORDER

Privatization and free trade are adding up to a boom market for U.S. goods in Latin America

No wonder Argentina went broke in the 1980s. Its tax system alone was a bad joke. Businesses calculated rates by hand, and tax office clerks wrote them in a manual ledger. Many Argentines simply refused to pay altogether. But now, President Carlos S. Menem is computerizing Argentine taxes. And IBM won the contract, dispatching \$8 million of U.S.-made computers to Buenos Aires.

IBM isn't the only U.S. exporter winning contracts south of the border. From Argentina to Mexico, Latin leaders have put their economies on a forced march to the modern world. Their challenge is to retool an entire continent. And that spells opportunity for U.S. exporters. American Telephone & Telegraph Co. is helping to rewire Mexico's phones. Exxon Corp. is preparing for a giant energy project in Venezuela. Even small businesses are cashing in. "My sales to Mexico have doubled without me doing anything," says John D. Starr, chief operating officer of Koch Supplies Inc. in

Kansas City, Mo., which sells food-processing equipment. "I only pick up the phone."

Who would have thought that the basket cases of the 1980s would be providing relief up north? But it's happening. As companies slough through recession in the U.S. and Canada, they're finding growth in their own backyard, as Latin American countries, except for Brazil, added as much as 4% to their gross national products last year. U.S. exports to Latin America grew 18% in 1991, to an estimated \$58 billion (chart). The hike accounted for one-third of U.S. export growth last year, and a persistent trade gap with the region is narrowing.

IMPORT BINGE. This comes as Latin governments tear down trade barriers and open up to foreign investment. Privatization throughout the region has put hundreds

of sick companies in the hands of new owners. To overhaul them requires massive imports. Meanwhile, multinationals, preparing for free trading in the area, are moving new machinery southward. And Latin consumers, stifled by a decade of debt, are starting the 1990s with an import binge.

Still, the job ahead is staggering. In the 1980s, Latins watched their infrastructure crumble while they struggled to service debt. To rebuild now, they require everything from earth movers to precision instruments, and they're looking to the yanquis, their traditional suppliers. It's a costly campaign, and no one knows how much and for how long the Latins can afford to spend.

The wave of privatizations in Latin America is key. Governments are unloading steel mills, banks, phone companies, and oil fields. With local markets

THE LATIN HUNGER FOR U.S. GOODS



opening to foreign competition, the new owners are investing in a hurry. Few moved faster than Teléfonos de Mexico, whose new owners—Mexico's Grupo Carso, Southwestern Bell, and France Telecom—embarked on an investment spree only months after the sale in 1990.

One big winner is AT&T. Last July, it won a \$130 million contract to supply and install more than 8,000 miles of fiber-optic cable linking 54 Mexican cities. Meanwhile, GTE Corp. is notching big sales to Venezuela's newly privatized phone system. "Latin America is becoming a very targeted market for [us] in the '90s," says Donald Smith, AT&T's vice-president for the region.

INTEREST DIVIDEND. Latin governments are also spending. Debt loads are easing as interest rates decline up north, leaving more money in the coffers. And their new creditworthiness opens doors to Eurobond markets, where they're raising billions to plow into capital-starved oil industries. Exxon is hoping to score on a \$3.4 billion liquid-natural-gas project in Venezuela. Brazil is letting bids for 2,000 kilometers of pipeline. And Mexico's oilmen, with \$1.3 billion in loan guarantees from the U.S. Export-Import Bank, are shopping in Houston for equipment and engineering and exploration services.

To be sure, American companies face competition for Latin America's import bonanza. European and Asian competitors are stalking the region, too. Japan's NEC Corp. and Sweden's L. M. Ericsson are battling the Americans for phone contracts. Singapore's Livingston Ship Building just landed a \$260 million job to build an offshore oil platform for Brazil's Petrobrás.

But Americans have a distinct edge. Through most of this century, U.S. companies built up strong distribution networks and are by far the biggest investors in the region. The ties survived the debt crisis. What's more, South Americans widely agree with President Bush that a North American free-trade agreement is an important first step toward hemispheric-wide free trade. In a world of trading blocs, Latins view the Americans, north and south, as partners.

Sales in Latin America still take work, though. Mail is iffy, often depending on the mailman's tip. Many middle-level bureaucrats still lose paperwork in crowded drawers. And the phones? Frustrated executives in Mexico City, Caracas, and Buenos Aires often find it easier to call New York and Chicago via satellite than to talk crosstown on the wired grid. But these days, the fabled bottlenecks and headaches in Latin America are filling order books up north.

By Stephen Baker in Mexico City, with Geri Smith in Rio de Janeiro, Kevin Kelly in Chicago, Elizabeth Weiner in New York, and bureau reports

THE LATEST RUSSIAN EXPATRIATE: HARD CASH

Individuals and businesses have moved as much as \$25 billion overseas

Like many other post-Communist Russian executives, Vladimir Kulistikov understands the true value of a ruble: zilch.

A senior official with the trading company Russian House Ltd., Kulistikov gains hard currencies exporting oil, timber, and metals from the Urals. He ships back consumer goods from South Korea and Taiwan. But when it comes to profits, the flow is largely one-way. Disheartened by spiraling inflation, mounting taxes, and political turmoil, Russian House is stashing its foreign-currency earnings in Budapest's Central European International Bank Ltd. "Everybody," says Kulistikov, "wants to keep their money abroad."

Kulistikov isn't exaggerating. While Russian President Boris Yeltsin searches abroad for billions to prop up the ruble, U.S. and European bankers estimate that at least \$5 billion—and perhaps \$25 billion or more—has fled the country since 1990.

Growing awareness of this overseas cash hoard held by Russians and other residents of the Commonwealth of Independent States will stiffen Western resistance to Yeltsin's pleas for massive stabilization aid from the Group of Seven industrial countries. But even more cash may flee unless Yeltsin clamps down on government spending and deflates the money supply. "It just isn't profitable to invest in Russia now," complains Moscow retailer Igor V. Zubkov, who is putting the profits from his family's seven Moscow general stores into new shops and restaurants in Frankfurt. "It's frightening that in poor and hungry Russia, everything that's being earned is going to the West."

SHOPPING SPREES. Russia's capital flight began with entrepreneurs depositing earnings in the U.S. and Europe. Communist functionaries, parking party funds abroad for safekeeping, added to the trove. The outflow picked up last year after former Soviet President Mikhail Gorbachev ordered exporters to sell 40% of their hard-currency earnings to

the state at 58¢ to the ruble. With the ruble worth barely 2¢ on the official market—and less than half that on the street—the move was widely ignored.

Yeltsin has since eased some of the restrictions, but he still insists that exporters sell some of their hard-currency earnings to the state at unfavorable rates. The near collapse of Moscow's Vnesheconombank, once the sole legal depository for hard currencies, has also been a powerful disincentive for keeping cash at home. And Russian Deputy Prime Minister Yegor Gaidar's attempts to balance his budget by imposing a 28% value-added tax, 35% profits tax, and 45% levy on business deals is prompting

many residents to export cash.

One Russian entrepreneur estimates his circle of friends has bought \$50 million worth of foreign currency. They have sent the cash abroad through bank transfers and by packing it into suitcases when they go on business trips. With Russia barely enforcing foreign-exchange regulations, capital flight is no

harder for companies. One joint venture with a Western investor, for example, deposits part of its Russian employees' salaries into a Hamburg bank. Every few months, the workers fly out, pick up their paychecks, and go on shopping sprees. Bankers say that other joint ventures keep the Commonwealth partners' share of their profits offshore, some under phony names to avoid detection.

Some Russian enterprises do it in the open. The TASS news agency in January began advising Western clients to pay their bills to an account at Dresdner Bank in Bonn, rather than to the Vnesheconombank. "We're eliminating the middleman," says TASS Bonn Bureau Chief Sergej Sosnovsky. "We need every pfennig we can get."

Even Russia's new commercial banks are sending dollars abroad, to accounts at Bank of America, Barclays Bank, and Crédit Lyonnais. Moscow's foreign-exchange reserves have dwindled so rapidly that the Russians in December were



forced to ask Western creditors to let them defer \$6 billion in foreign-debt payments. "Control over [foreign] currency has been lost," concedes Yuri Petrov of Russia's Committee on Foreign Economic Relations.

Yeltsin has threatened to confiscate unauthorized offshore bank accounts, and Central Bank Chairman Georgy Matykhin hopes to intervene in currency markets to keep the ruble afloat. But they may lack the means to do so. Indeed, some think capital flight has driven the ruble down so far that Russia now is the bargain of the century.

If that's true, says analyst Jan Vanous of Washington's PlanEcon Inc., Russians might be well advised to "bring their dollars home and exchange them on the black market," much as savvy Poles did just before the beleaguered zloty turned around in 1990. Trouble is, few in the Commonwealth are ready to buy that line. "When the situation stabilizes," says Kulistikov, "we will transfer our money back. But we're not in a hurry." Many Russians feel the same way.

By Rose Brady in Moscow and William Glasgall in New York, with Mike McNamee in Washington and Igor Reichlin in Bonn

and real estate crumpled, heavily indebted high rollers ended up in bankruptcy court. One example is a 44-year-old cook who started playing stocks with a \$500 investment. He wound up \$344,000 in the hole.

Many of those buried in debt are younger Japanese, hooked on plastic while still in college. Tempted by monthly cash loans of \$1,600 and revolving credit, recent graduates use credit cards to buy cars, clothing, skis, and airplane tickets. Catering to jet-setting young secretaries and other travelers, for example, Visa International boosted its cardholders in Japan from just 5 million in 1987 to 37 million now. Overall, the number of cards issued in Japan doubled from 1985 to 1990, to 166 million.

NIGHT WORK. Cardholders pay a hefty price for easy credit. Interest rates are 27% on borrowed cash, roughly a third higher than rates in the U.S. But despite the high rates, one or two cards are not enough for the biggest spenders. When cardholders can't keep up with interest payments, they often turn to consumer-finance companies, with names such as Promise and Benefit, for more loans at rates of up to 40%. If these debts aren't paid, lenders sometimes take strong measures such as sending thugs to a deadbeat's house where they humiliate him by shouting insults, often all night.

But it is the issuers of credit cards that have the most to lose as personal bankruptcies head skyward. The extent of card delinquencies has doubled in Japan to about 0.7%, even though that's only one third of the U.S. delinquency rate. Japanese issuers don't usually swap data on how many cards a new applicant already holds. But they keep issuing new cards.

Not surprisingly, the debt woes are spawning a cottage industry: bankruptcy counseling, mostly in Tokyo. Bankruptcy lawyer Kenji Utsunomiya, for example, has written a book and held phone marathons to explain bankruptcy proceedings. Officially, Japan's bankruptcy rate is much lower than the U.S. total last year of 880,000. But in fact, many of Japan's 700,000 debtors who were sued last year are also "virtually bankrupt," says Utsunomiya.

One bright spot for card issuers is the tradition among Japanese of paying off debts. But that may change this summer when revolving credit is expanded to include holders of bank-affiliated credit cards, giving them the option of postponing bill payments. With thousands of debtors already on the edge, that's one new temptation many Japanese could probably do without.

By Ted Holden in Tokyo

JAPAN

THE JAPANESE DISCOVER THE PERILS OF PLASTIC

Consumer credit-card debt has soared—along with bankruptcies

For one candy company executive in Tokyo, the road to bankruptcy court started with a \$19,000 car loan in 1989. The extra money tasted sweet to a man who for 19 years had stretched his modest salary to support his wife and two children. So he took out more loans, buying electronics gear and furniture. To keep up with payments, he took out even more loans or drew cash on his credit cards. By late last year, he owed \$167,000.

Meet Japan's new deadbeat generation. Once admired for their frugality, the Japanese are seeking court protection from creditors as never before. Analysts expect personal bankruptcies to reach 20,000 in the 12 months ending in March, nearly double the year-ago rate. "People have just spent too much with no understanding of how much they can pay," says Hisao Misawa, executive vice-president of Consumer Credit Clearance Inc., a Tokyo-based collection agency. Over the past five years, consumer debt has soared 65%, to \$460 billion.

IN THE SOUP. The collapse of Japan's nascent version of a casino society is hardly good news for U.S. exporters. Saddled with a \$43 billion trade deficit, U.S. officials are pressing Japan to stoke up its economy and urge its consumers to spend. But with financial wipeouts in-



SKYLINE BEACONS: FEW SEEM TO BLINK AT 27% RATES

creasing daily, the Japanese banks and credit companies that flooded the nation with plastic in the booming 1980s are getting stingier while government regulators are giving them closer scrutiny.

The image of the Japanese as fastidious savers started to tarnish in the late 1980s, when a speculation binge in stocks and real estate got under way. When the stock market crashed in 1990

HOW CHINA'S LI PENG IS GATHERING THE REINS OF POWER

In the West, Chinese Premier Li Peng is known for his perpetual scowl and his infamous support of the bloody 1989 crackdown on Tiananmen Square. But the 63-year-old Li is also proving to be a skilled politician who is deftly managing to boost his standing at home.

While China waits for Deng Xiaoping and his aging cohorts to pass from the scene, Li is carefully tending a power base that is designed to put him at the head of the pack once Deng dies. Not long ago, most analysts believed Li Peng had little staying power. But as head of the government, he has managed to take credit for China's economic recovery and for mending the country's diplomatic fences abroad.

Li has shrewdly taken advantage of the rapid collapse of Soviet communism, which sent a chilling message to the Chinese Communist party. Obsessed with maintaining stability, Beijing's top leaders were convinced that the best way for them to survive was to keep the screws on political dissent but also energize the economy with free-market reforms.

FAMILY MAN. Li has delivered on this program. As any visitor can see, China's economy is thriving.

In contrast to Moscow's long breadlines and runaway inflation, Beijing's markets are piled high with affordable produce, stylish garments, and electronic gadgets. Inflation is down to 5% from 30% in 1988, and hard-currency reserves have surpassed \$35 billion. "People can see that on a yearly, a daily basis even, life is getting better," says a U.S. official.

Many economists credit a three-year austerity drive that Li spearheaded for getting the economy back on course. A hydraulic engineer trained in Stalin's Soviet Union, Li is a hard-line Communist at heart. But now, he has jumped on the reform bandwagon. He appears on television almost daily, traipsing through factories, coastal free-trade zones, and new

stock exchanges. But to avoid another outburst of inflation and layoffs at state-run factories, Li is resisting Boris Yeltsin-style economic shock treatment.

His Beijing propagandists are also trying to present a kinder, gentler Li Peng by depicting him as a humanitarian who rushes to the scene of natural disasters and as a family man. "Li Peng never behaves like a domineering husband, and he always helps me do housework when he is free," his wife, Zhu Lin, told the official press. They also highlight his close ties with the late Zhou Enlai, Li's stepfather. Portraits of Zhou are posted throughout Beijing. The subliminal message: Li is carrying the mantle for the revered elder statesman.



LI IN MOSCOW: IMPROVING RELATIONS WITH FORMER FOES

GLOBAL OVERTURES. To improve his international image, Li Peng has trotted the globe, presiding over the normalization of ties with former foes from Singapore and Vietnam to India and Israel. But Li's image has not sold well in the U.S., where memories of his leading role in the Tiananmen crackdown remain vivid. Bush took the risk of agreeing to see him in late January because the President believes in a "constructive engagement" policy with the world's

most populous nation. But just by meeting with Li, Bush makes the Premier look like a star diplomat back home.

Li did make it easier for the meeting to take place: He released nine dissidents on Jan. 27. But he still has a long way to go. To Chinese intellectuals, who routinely refer to him as "disgusting," Li remains a throwback to a dying era of out-moded party hacks who turned the guns on their own people. But as China's doddering leaders cling to power, the savvy Li Peng is using his time wisely. He may wind up with more clout than anyone imagined.

By Pete Engardio in Beijing, with Amy Borrus in Washington and Joyce Barnathan in New York

GLOBAL WRAPUP

FRANCE

Big Blue has taken a giant step toward making itself a centerpiece of Europe's high-tech future. In a tense bidding war against rival Hewlett-Packard Co., IBM wound up with the prize: a linkup with France's state-owned computer maker Groupe Bull. With this new partnership, IBM aims to assure that its high-speed RISC computer technology—not HP's—becomes a European standard. The alliance also bolsters IBM's strategy to become Europe's first line of defense against further Japanese inroads.

To win that honor, IBM had to fend off not only HP but the French govern-

ment. While Bull Chairman Francis Lorentz and France's Finance Ministry favored a tieup with IBM, protection-minded Prime Minister Edith Cresson preferred HP as less threatening. It took President François Mitterrand to give IBM the final nod. The politically beleaguered Cresson was nonetheless quick to embrace the IBM accord as a big boost for her scheme to rescue France's flagging state-owned high-tech companies.

Although Cresson pledged to keep IBM from taking over Bull, the two will become closely intertwined. For starters, Big Blue will pay \$100 million for a 5.7% slice of Bull's equity—a move designed to offset the 4.7% held by Ja-

pan's NEC Corp. IBM and Bull will share manufacturing of various RISC components that both companies will use in their computers. And IBM has agreed to resell about 150,000 portable computers annually from Bull's Zenith Data Systems unit and share the futuristic systems it is developing with Apple Computer Inc.

Pushed by Cresson, IBM will also help strengthen money-losing SGS-Thomson Microelectronics' position against its Japanese and U.S. rivals. IBM will transfer semiconductor-processing technology to the state-owned chipmaker, and it will double its current purchases of SGS chips to about \$100 million annually.



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SENIOR TOUR JOURNAL



OFFICIAL



J. Hyatt '92

If it had less legroom and cost thousands more



Logic would seem to dictate that when you pay thousands of dollars more for a car, you should get a lot more car. Apparently, in the case of the Cadillac Sedan DeVille versus the Chrysler Fifth Avenue, logic does not apply. Both cars provide ample room for six, air-conditioning, automatic transmission, automatic load leveling, stereo sound system, fully reclining seats, all as standard equipment. Both offer safety and performance. A driver's air bag is standard on the Chrysler Fifth

*Standard equipment levels vary.

Legroom comparison to Cadillac Brougham. †Excludes normal maintenance, adjustments and certain wear items. See limited warranty at dealer. Some restrictions apply.

n, a lesser warranty, e, it could be a Cadillac.

Avenue, as is a powerful fuel-injected, 3.3-liter V-6. Anti-lock brakes

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totally falls apart. The restyled Chrysler Fifth

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THE 1992 SENIOR TOUR JOURNAL

INTRODUCTION BY SAM SNEAD

When Business Week asked me to write this introduction for the Senior TOUR Journal, I was awfully flattered. It gave me a reason to stop for a moment and think back on all of my years in golf. I consider myself quite lucky to have been able to spend my entire life playing golf. It's not only been my livelihood, it's been my life. It's given me the opportunity to do things I never dreamed of doing as a kid growing up in the Back Creek Mountains of West Virginia. Playing all over the world and rubbing elbows with presidents, kings, and the biggest celebrities of our day . . . from Bob Hope, to the Duke

of Windsor, Eisenhower, Nixon and Ford, the King of Sweden, Mickey Rooney, Johnny Weismuller . . . you name 'em. Ya know, golfers have been called the celebrities' celebrities, and it's true. All the stars

have told me that if they could come back and do it all over again, they would come back as a professional golfer.

Sure, the great players make the game look easy . . . Nelson and Hogan, Middlecoff and Boros, Palmer and Nicklaus, Player and Trevino, and all the other names you can think of. But all great players share one thing in common. They love to play. And when they're in the hunt, and that could



be for a two-dollar Nassau or the U.S. Open, they *really* love to play.

I remember in 1938, my second year as a touring pro. I won eight tournaments that year starting with the Bing Crosby Pro-Am and ending with the Inverness Invitational. Victories from coast to coast. And in 1941 I won seven events. I've been credited with more than 160 total victories and with still having every penny of prize money I ever won. But back then it wasn't just the prize money. Heaven and my banker know it wasn't that. No, it was the hunt that really got the juices flowing. Coming down to those last few holes knowing that every shot counted. That every shot made a difference. That's what got us going. That's what made us play our best.

Now don't get me wrong. There's a lot to be said for the satisfaction that comes from standing there and accepting the big trophy and the winner's check. I like a buck as much as the next guy. But if you don't like the heat of the competition or can't find a way to come through in the clutch, the trophy case is going to be a little bare. Same for all you businessmen. Gotta like what you're doing if you really want to be the best, cause it's like golf. That little white ball doesn't remember if you won The Masters last week. It still makes you go out and prove yourself again today. You and I both wish that ball had a little longer memory, don't we!

I wasn't even 10 years old when I started caddying at The Cascades, and that's when I first got to hit balls with a real club. I still love the feeling of mak-

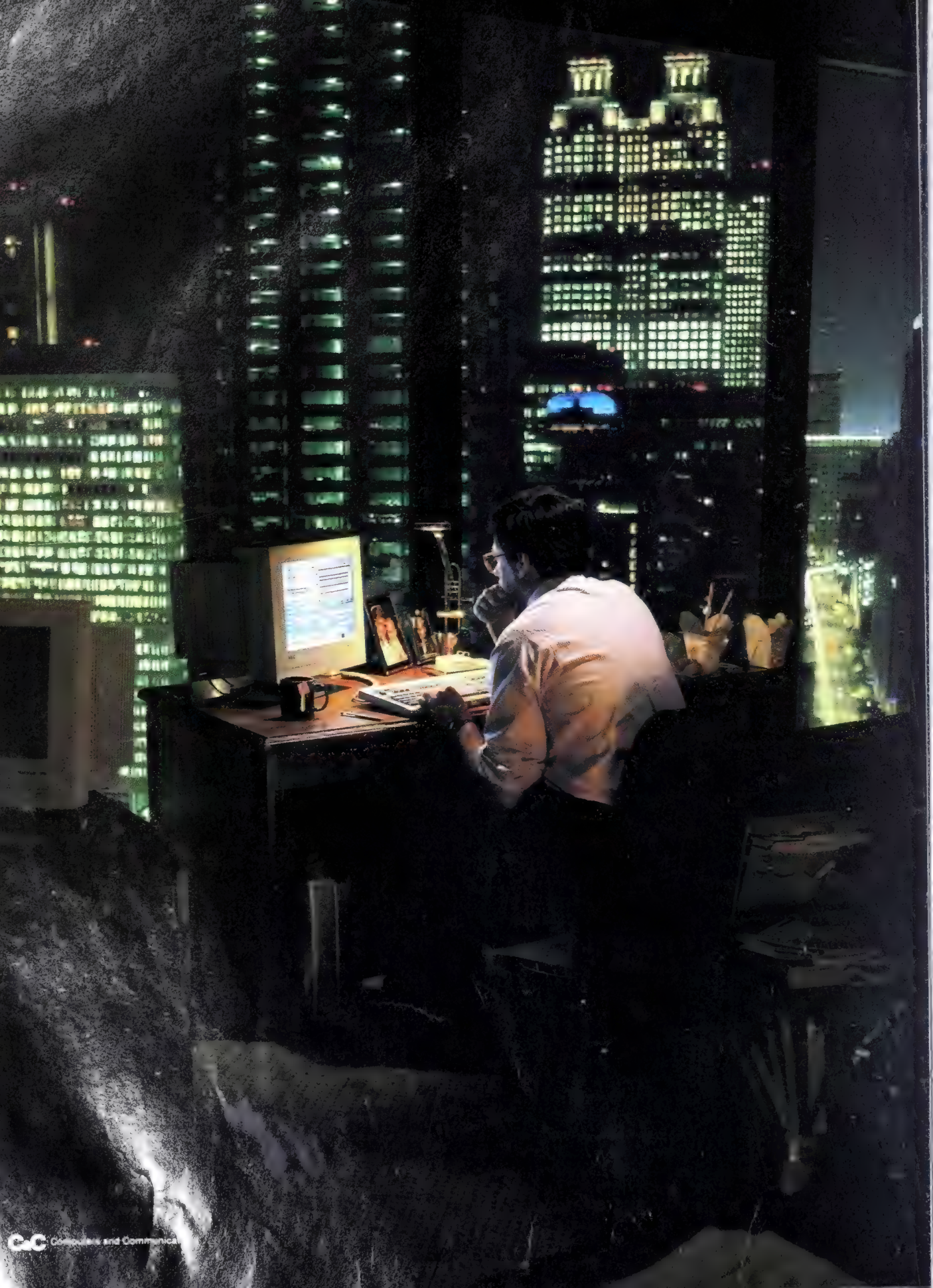


Golf's living legends, Jack Nicklaus, Arnold Palmer, and Lee Trevino contribute to the success and popularity of the Senior PGA TOUR.

“That little white ball doesn't remember if you won The Masters last week. It still makes you go out and prove yourself again today.”

ing contact and watching that ball fly through the air just like it was intended to do. You see, I got the golf bug early in life, and I still have it. All of us on the Senior TOUR have it. That's what got us this far.

And I think all of you who play golf, even if it's just a little bit here and there, start to get that bug, too. And that's because golf's a lot like running a business. There's not a lot of room for error. You have to stay dedicated to it to be any good. The scorecard is like your balance sheet, and we all know that the numbers don't lie. But when you reach that score you were striving for . . . when the bottom line comes out where you wanted it to . . . well, there's nothing like that sense of accomplishment and that feeling of success. What's funny about life is you can't wait to go out and do it again. And try to do it better!



9:27 PM

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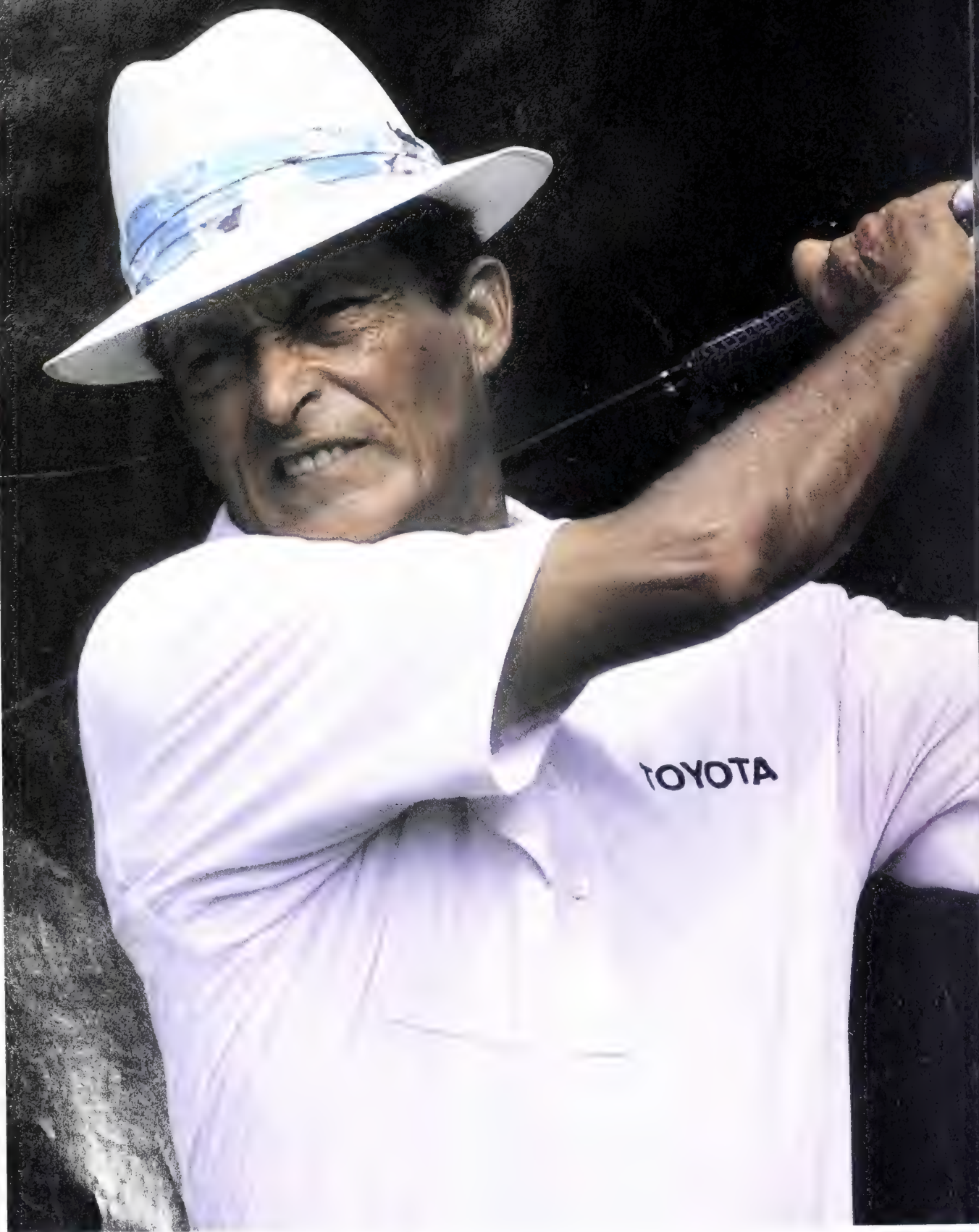
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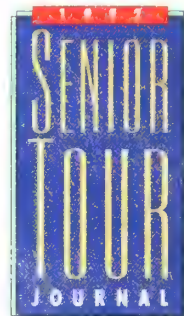
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THREE CHEERS FOR CHI CHI

BY BOB VERDI

What is it about Juan "Chi Chi" Rodriguez that conveys such joy? Surely, there are other professional golfers who smile all the way to the bank. And many others can make the galleries roar by making the ball talk. And still others can treat business with such pleasure that the fun isn't only theirs, but ours, too.

What is it, though, about Chi Chi? Forever, he seems to be the leader in the clubhouse on matters more significant than posting the best scorecard. True, birdies energize him, but bogeys don't destroy his spirit, and if that four-foot putt zigs when it's supposed to zag, well, so what? There's always tomorrow, and Chi Chi will just about guarantee that it will be even shinier than today.

"Takers eat well, but givers sleep well," he says. "I don't need a pill to get to sleep. And I sleep ten hours. Alligators sleep all day, and they live to be 300."

Oh, there are thousands of those homilies in Chi Chi's bag. One for every 18 holes he plays on the Senior PGA TOUR.

Or is it 18 for every hole? Whatever, at age 56 this wonderfully genuine human being who comes in such a compact package has done golf fans throughout the world a true favor. When an athlete's skills erode, alas, we tend to see less of him or her. But Chi Chi has managed to play so well for so long that we needn't worry. He'll be there when it counts.

That's his history.

Because golf is not meant to be fair, Chi Chi still waits to win his first major tournament. The U.S. Senior Open would be his choice, for, as he says, "it carries the name 'United States' in it . . . the greatest country in the world."

Chi Chi was in position to claim the 1991 Open at halcyoned Oakland Hills in Birmingham, Mich. Talk about a gathering of legends. Lee Trevino led after three rounds, by one stroke over Jack Nicklaus and Chi Chi. Trevino, however,

"The thing people don't realize, though, is how many good players are out here. This is good golf. If it wasn't, the Senior TOUR wouldn't be as successful as it's been."

SENIOR TOUR JOURNAL

bowed with a closing 74 while Nicklaus and Rodriguez each shot 71 to wind up in a tie after 72 holes. In Monday's playoff, Chi Chi shot 69.

But The Golden Bear went out in 31 strokes, came back in 34, and posted a splendid 65.

"What was I going to do?" Rodriguez says, with a shrug. "I lost to the best player ever playing the best golf I've seen him play in 15 years. Jack said it was his best round for ball-striking that he'd had in a long time. I thought before the playoff that if The Golden Bear went to sleep, maybe the little mouse would sneak right in. I wound up trying to hunt The Golden Bear, but I didn't have enough bullets. When Jack wins any tournament, it's good for golf."

Indeed, Nicklaus' triumph there meant automatic entry for him at the U.S. Open in June, 1992, at Pebble Beach, one of his favorite venues.

"If I'd have won the Senior Open, I still wouldn't have played in the other Open," Chi Chi says. "I know I can't win that. But Jack can. He's still good enough to win. He was like a machine out there in that playoff round. Nobody could play that well except him. Me, it would have been good for my ego to beat him for my first major, but I'm happy for Jack that he won. You see, he's the one guy who came out to the Senior TOUR with nothing to gain."

"The thing people don't realize, though, is how many good players are out here. You worry about Jack when he plays, or Lee or maybe even me. But then Ben Smith shoots a 65 or 66, and everybody asks, 'Who's 6? Who's Ben Smith?' He's

other good player out here, that's who I think that's the one thing that the players when they first here and the galleries when come out to see us. This is If it wasn't, the Senior didn't be as successful as



Last season, Chi Chi was again among the leaders in sand saves on the Senior TOUR.

it's been. Look at the crowds and the TV ratings, and these are tough economic times."

Chi Chi's stock, a blue chip offering to which the public is entitled, continues to rise, recession or no recession. He won four more tournaments on the Senior circuit in 1991, and he realized \$794,013 in official earnings. You can count on both hands the number of professional golfers on either TOUR who fared better and you'll still have some fingers left over. And, here's a warning to Chi Chi's contemporaries. While his lodge brothers might suffer burnout, or find themselves moving from the "gee whiz" to the "aw nuts" category, this mighty mite remains firmly in love with his existence.

"If everyone were like me, there wouldn't be any need for psychiatrists," Chi Chi says. "I just might play golf forever."

Rodriguez is hitting the ball as long or longer than ever off the tee, and he's hitting it straighter. Chi Chi has been known to grapple with radar problems, but early in 1991, he befriended one of those "Big Bertha" drivers. The results

are remarkable. A year ago, though he was a strong fifth on the money list, Chi Chi was not in the top 10 for driving accuracy. Last season, however, he finished fourth for total driving. His length — an average of about 265 yards, which is plenty. That swing of his, the one you wouldn't teach to an enemy even if you could, is not classic, but it is eminently functional. The irons are crisp and the putts are dropping and the scores are routinely low.

Chi Chi cautioned one and all — including himself, in a way — that when Nicklaus and Trevino turned 50 and became eligible for the Golden Pond Gang, other golfers on the Senior TOUR would have to settle for leftovers. When Jack didn't win, Lee would win. And vice versa. With more luminaries, such as Raymond Floyd, due to arrive soon.

But Chi Chi, who came to the Senior TOUR in 1985, is about to triple his receipts gleaned from the Regular TOUR, which he joined in 1960. At a time when most comfortable venerables are mulling retirement plans, Chi Chi is formulating goals. At 56, the legs are supposed to be gone, and maybe the nerves and the eyesight, too. But Chi Chi figures that all of life's lessons, good and

*"If everyone
were like me,
there wouldn't
be any need for
psychiatrists,"
Chi Chi says.
"I just might
play golf
forever."*

How else can you describe the all-new Toyota Camry? Try well-built, good-looking and, yes, even intelligent.

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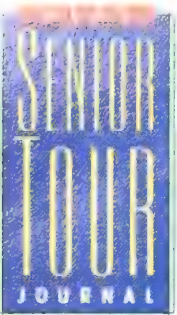
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bad, have nourished instead of diminished him. Besides, the most important muscle in the body is the heart and the talent we should value above all is the ability to work.

"One thing you can't rush," Chi Chi says, "is experience. My father's mother lived to 114 and my father's father lived to 110. My mother's parents both lived past 100. One of my uncles was 108. So, time is on my side. Will I still be playing golf when I'm 62? If the Lord lets me, of course. But when I'm 62, I don't think they'll give me Social Security."

Chi Chi was born in Rio Piedras, Puerto Rico, a village near San Juan. He was one of six children in the family. His father Juan labored on a sugar cane plantation, suffered a heart attack and was let go, then took another job at another plantation. The optimum salary was about \$18 a week, enough to put food on the table. But it was a small

table, and the food wasn't always the best. After he had soup for lunch, he picked his teeth before his friends, all the better to make them think he'd had meat. Were times trying? Chi Chi got maybe a dollar a day for helping out on the plantation as a kid, and he caddied, too, at 35¢ per 18 holes. Of course, Chi Chi being Chi Chi, when he could tell you all that he missed, he counts his blessings instead.

"Look at these hands," he says. "The fingers are still crooked from rickets. But, look again. Crooked hands make a perfect golf grip. I found out early that I could handle the club. But, I didn't play like these kids play now in college.

These kids play so much golf, they are so programmed so early, that some of them lose their love for the game. Guys like me who grew up as caddies, maybe we appreciate it more. I started hitting

a tin can with a stick from a guava tree.

"I didn't get my first real golf club until I was 11. I was a kid, but I never was a kid, if you know what I mean. You go to work when you're 7, you're too poor to be a kid. Now, some kids have everything. Some kids on the other TOUR. That's not their fault. But you know what they say. A person who grew up with nothing can lose everything and start over again. I could go back and be a caddie if I

had to at a country club. But what about these kids who have enough money to buy the country club? If a rich person loses everything, he is helpless."

Chi Chi entered the army when he was 19. His game improved, as he says, but not as much as his marching. When

he returned home, Ed Dudley appointed Chi Chi as caddie master of the Dorado Beach Golf Club. Then came Pete Cooper, who replaced Dudley and taught Chi Chi. Then came Laurance Rockefeller, who built Dorado Beach. He offered to sponsor Chi Chi on the TOUR. Chi Chi won the Denver Open in 1963, and almost immediately, he reached into his pocket. His

mother, divorced, had moved to New York. Chi Chi visited her in her dilapidated apartment, and bought her a house in San Juan. He's been giving ever since.

"My hero is Mother Teresa," Chi Chi says. "She doesn't talk about money, she talks about love. I have had my problems with money. But, I believe that God takes care of good people. God does good things for people who do good things. Years ago, I was going bad and I saw Jack Nicklaus at Pebble Beach. He had just bought the MacGregor company and he asked me if I would be a spokesman for his company. You see what I mean? I believe that maybe God has been nice to me because I've tried to be nice to people. That's the way I was brought up. I'm not going to change now."

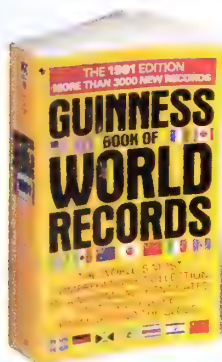
Chi Chi tells a story. Many years ago, he went to see his mama, Modesta. He turned over to her the keys to a brand new car. But when Chi Chi left to go play some more golf, mama gave the keys to Frankie, Chi Chi's brother. Frankie and his girlfriend went for a drive. They parked the car at a roadside stand to buy some fruit. A youngster in a jalopy lost control of his car, and rammed it into the brand new car, of which there was very little left.



Chi Chi Rodriguez usually follows a birdie putt.

To those who wonder why Yonex Irons cost twice as much as any others, we offer the following explanation.

The Guinness World Record long drive. An astounding 412 yard shot made with a Yonex A.D.X. in a PGA sanctioned event. And a record that has remained unbroken for the past two years.



A record that's compelled other club makers to change their designs. To improve their materials. To even copy our exclusive widebody shape.

Yet, try as they may, nobody has been able to match our record. Or even come within a few yards. Much less surpass it.

But what does a drive, impressive as it may be, have to do with the price of our irons?

Simply this. The same advanced technology that created the Yonex WideBody Driver is behind each and every set of Yonex WideBody Irons. And that holds true for our graphite A.D.X. 200's. Forged A.D.X. Tours. And the new soft cast A.D.X. 100's.

Or to put it another way, with Yonex you're not just buying clubs. You're buying technology.

Yonex WideBody technology. Consider our A.D.X. 200's, for instance. We put 50% more mass in the head and widened the sole by 80%. Giving each iron a center of gravity that's both lower and deeper. What's more, the aerodynamic shape reduces wind resistance. So you'll generate much greater clubhead speed.

All of which results in at least 15 additional yards on every shot. And amazing accuracy.



The A.D.X. clubhead's WideBody has 50% more head mass than a standard iron and an 80% wider sole width. Thereby creating both a lower and deeper center of gravity for far more distance and accuracy.

If you don't think that's worth the price, you definitely don't play to win.

Because the way Yonex sees it, it isn't really a question of how much you pay for a set of irons. It's more a question of how much an eagle on a par 5 is worth. Whether you've got a hundred dollar Nassau riding on it. Or just your ego.



SENIOR TOUR JOURNAL

"You know what Mama did?" says Chi Chi. "She called the kid's father, and the first thing she asks is if the kid was hurt. Then she invites

the kid's father over for coffee to talk about the problem. The father tells Mama he has no insurance, no money, no nothing. Only three other very old cars to his name. Mama tells him, here's what we do. You give me the oldest of the three cars and we'll call it even."

In time, Chi Chi returned, wondering where that new car was. She told him.

"How could you do this?" he said.

"Don't worry," Mama said. "God will give me a new car if he wants me to have it."

Got time for another story?

As a child, Chi Chi remembers hearing a noise outside the family's tin-roofed shack. His father Juan arose, darted out the back door, and confronted the intruder, who carried a machete.

"What are you doing here?" inquired Juan.

"I . . . I . . . I came here to get in out of the rain," the man responded.

"Are you crazy?" said Juan. "Look up in the sky. There are only stars above. Now give me the machete."

Juan Rodriguez walked into the dark, toward the banana grove that the family used to subsist. He flailed away for a few minutes, then returned.

"Here," Juan said to his neighbor. "Next time you need food, you come through the front door and ask for it."

Chi Chi's eyes twinkle at the recollection.

"First, you have to understand," he says, "it was the honorable thing to steal for your kids. But the way he handled that neighbor was one of the many things my father did that had such a big influence on my life. He taught me how to give. The eyes of the adult must be open to the child. Giving is in my genes."

Nowhere is Chi Chi's spirit more evident than in Clearwater, Fla., home base of the Chi Chi Rodriguez Youth

Foundation. There, disadvantaged, troubled and abused children are taught the game of golf, but more importantly, the game of life. They are counseled, they are educated, they are hugged. Chi Chi is forever in telephone contact with the kids, and perhaps a dozen times a year, he will visit.

"Yes, I'm tired when I get there a lot of times," he says. "So tired, I want to lie down and go to sleep. But then I see the kids, and I feel like Clark Kent. We have about 650 of them, at all stages, and that includes going to college and graduating. Ten years ago, I was making \$37,000 and spending \$100,000. It got so bad, the IRS sent me a get well card. But that's okay.

And to think that, once upon a time, Chi Chi Rodriguez was so misunderstood. He came aboard the professional tour full of song and animation. To be brutally honest, his choreography was not always welcome. In fact, after playing a round with Arnold Palmer at the 1964 Masters, Palmer chided Chi Chi for a few too many antics. Chi Chi left the conversation with tears in his eyes, for he still considers Palmer "the

king . . . we should worship his footsteps after what he's done for golf."

Now, it's Chi Chi's turn to be appreciated fully. He still does the matador

act. The hole is a bull, the club his sword. The putt drops from wherever, the longer the better, Chi Chi draws his sword, brandishes it, then returns it to the scabbard. Good theater, good person.

"I think it's a case of Chi Chi being so proud of what he's done, and so happy with his life, that he just sort of bubbles over," says Doug Sanders. "Not in a bad way. In a sincere way. He's been

through a lot, and he's made it, and he shows his feelings."

Chi Chi is also delighted to play better than the next guy, too. Don't let the bright clothes and the showmanship fool you, suggests Don January. Chi Chi is all about beating you. He's beaten just about everything so far, and the joy is yours as well as his.

"I am a mental millionaire," says Chi Chi. "Besides, the only thing you take with you when you die is what you leave behind."

*"Yes I'm tired
when I get there
a lot of times,"
he says. . .
"But then I
see the kids,
and I feel like
Clark Kent."*



Chi Chi with young fans in Clearwater, Fla., home of the Chi Chi Rodriguez Youth Foundation.

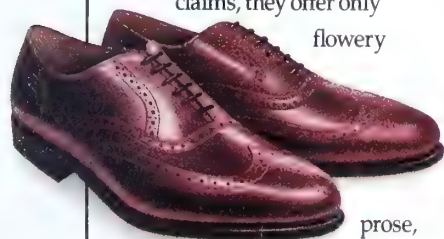
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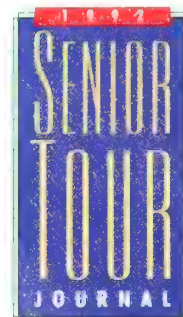


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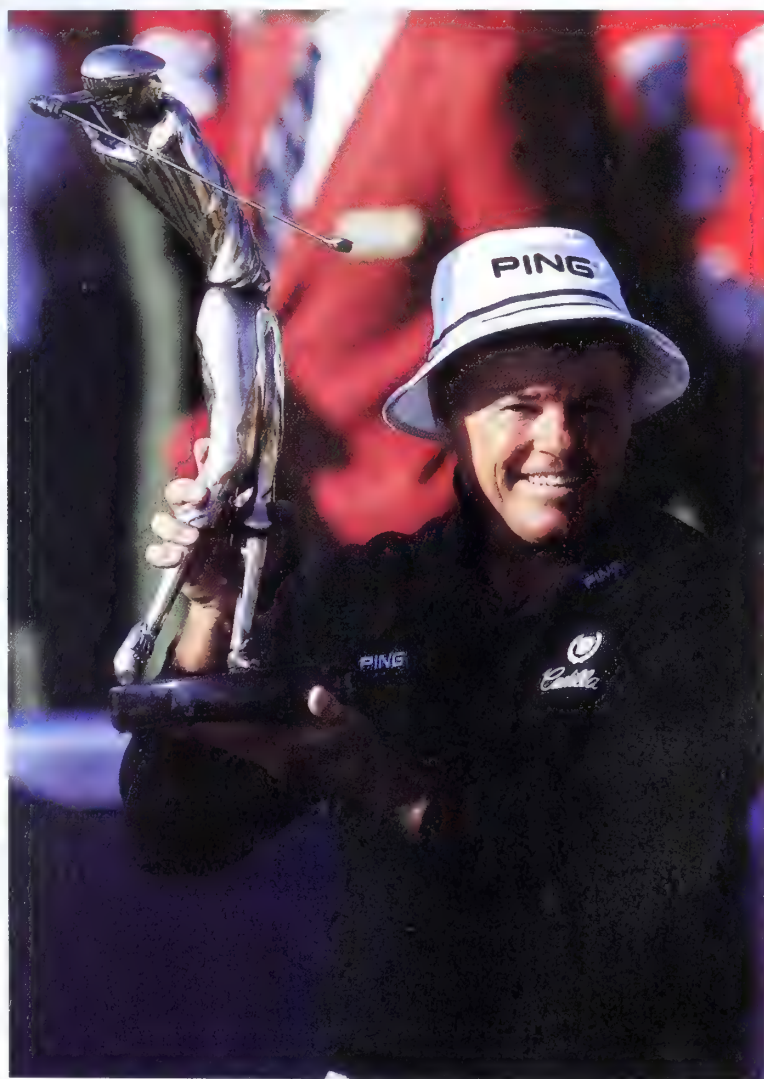


The Official Airline Of The Senior PGA TOUR



THE BUSINESSMAN'S GOLFER

BY JAY WILLI



There's something about Jim Colbert that reminds you of a bulldog.

There's something in the face, in the walk, in the demeanor that says this man won't let go. Once he clamps the teeth of his ambition into a juicy part of life, you can bet Jim Colbert will take the biggest bite he can.

He did it as a PGA TOUR player. He did it as a successful businessman. He did it as a television commentator.

And he sure took a big bite out of the 1991 Senior PGA TOUR in his rookie season. He won three tournaments and more than \$800,000 last season. Pretty good, almost remarkable, for a man who spent the decade of the '80s building a golf course management business, who spent three years talking about golf on television rather than playing it, and who spent most of his professional life with a bad back that might have pushed any athlete into an ergonomically correct office chair, a phone in one hand, a pen in other and an opening line of "I have this lovely property in central Florida you might be interested in..."

"In business I got more upset stomachs and there were more sleepless nights than anything playing golf could produce."

Jim Colbert has battled to make the most he could out of the game of golf, both on the course and off. And finally, at the age of 50, he had his most successful year ever playing the game. He won the

SENIOR TOUR JOURNAL

Senior TOUR's biggest event, the Vantage Championship, he won the first Development Kaanapali Classic, and he won a tournament

very special to him, the Southwestern Bell Classic in Belton, Mo., a suburb of greater Kansas City, the area where he grew up.

He's done exactly what he wanted to, coming to the Senior TOUR with a revitalized game, one that again allows him to feel the warmth of competitive fire, one that allows him to feel like a bulldog again. And when you see that toothy grin after he drops a birdie putt, there's little doubt that this is one happy bulldog.

For many players the Senior TOUR is a renewal of the only life they've known, that of competitive golf. It's a second chance, maybe even a third or fourth. For Colbert, it's a resumption of a life interrupted by two other lives that were rewarding in their own ways, lives that told him there are more perilous moments than standing over a 10-footer to win a golf tournament.

"In business I got more upset stomachs and there were more sleepless nights than anything playing golf could produce," said Colbert.

Colbert Golf, Inc., was the outgrowth of Jim Colbert's desire to maintain his way of life, the high life he enjoyed so much on the PGA TOUR and the life that was so threatened by the onset of back problems in 1976.

In the latter '70s, with the back problems restricting both the quality and quantity of his play, Colbert started looking at golf for its business prospects. As a member of the PGA TOUR policy board, he had been involved in the concept and evolution of the Tournament Players Clubs. "When we started the concept of the player's clubs, I was involved in about 10 deals," said Colbert. "When I was out, I would work on the deals and I would be back. About the same time I was thinking how I could maintain my



Colbert and his wife Marcia enjoyed Jim's first year on the Senior TOUR.

lifestyle if I didn't play. I liked the good life, but if I couldn't play, I might not have that good life anymore."

He had an idea that public golf was the way to go. At the very beginning of the '80s legendary players like Arnold Palmer and Jack Nicklaus were entering the golf course design and management arena, using their names like bulldozers to cut a swath through the private country club sector. They were heavy competition, and while Colbert wouldn't shy away from them in tournament play, business was something else again.

Then, in 1980, a friend asked him if he would consider leasing the city-owned course in Las Vegas. About a year later, Colbert signed a 25-year lease for the course. He brought in his longtime friend, Ron Fogler, who had managed the Manhattan Country Club in Manhattan, Kan., where Colbert went to college at Kansas State University.

Colbert had the name and the determination, but his business experience was still limited. Fogler, besides being a club manager, had been a vice president of the PGA of America, a member of the Greens

Superintendents of America and a master chef. In short, he was long on all the elements that go into the successful management of golf courses. "We built our company around his expertise," Colbert said.

There are plenty of hazards in building a company. Colbert and Fogler took over the Las Vegas course and started using the revenues to fix it up, to make it a quality facility that would give public players at least a taste of the private pleasures of golf. They worked to better the fairways and greens, rebuilt the driving range, fixed the pool, and the clubhouse.

They were doing well, and Colbert, whose back was doing well enough that he could return to the PGA TOUR, was playing the best golf of his career in the early '80s. In 1983, at age 42, he had his best year, winning more than \$200,000 and two tournaments, the last of eight tournaments he won on the PGA TOUR.

In 1984 the county course in Las Vegas came up for lease, and Colbert and Fogler took it over. It would be called Desert Rose, and it would

For many players the Senior TOUR is a renewal of the only life they've known, that of competitive golf.

On the twelve hole I got a HOLE-IN-ONE. I used your driver, I had to, the twelve hole is a 319 yard par 4!!! I even got my name in the local newspaper.

Bob Ketcham *Kiamisha Lake, New York*

Not only did I win the low net using your driver, I got my first ever hole-in-one. I must say it was the thrill of a life

Theresa Welle *Marietta, Georgia*

While playing the Bountiful Municipal Golf Course, I HIT A HOLE-IN-ONE on the 310 yard par 4 hole. I was playing with

Jack W. Hiatt *Bountiful, Utah*

A 412 yard drive got us into the Guinness Book of Records. These should get us into Ripley's.

HOLE-IN-ONE

During the recent Steve Pate charity tournament at Wood Ranch C.C. in Simi Valley, Gary Klahn made a double eagle hole-in-one on the 8th hole, a 342 yard par 4. The shot was made with a Yonex driver and carried the green over a large lake.

Gary Klahn *Fullerton, California*

USING MY ADX 200, I GOT MY FIRST EVER HOLE-IN-ONE. THE HOLE I MADE IT ON WAS A 321 YARD PAR 4.

Mike Musgrave *Fort Collins, Colorado*

Dick Lewandowski aced the 154-yard No. 8 hole at Summer Tree Golf Club on March 24, using a Yonex 5-iron. Witnessed by J. Kavulich, J. Supernaw.

Dick Lewandowski *New Port Ritchey, Florida*

When we reached no. 8, a 310 yard par 4 I hit the ball right into the hole using my Yonex Tour Driver for a "Double Eagle."

Larry C. Brown *Albuquerque, New Mexico*

Two years ago, a Yonex driver hit the world's longest measured drive in a PGA sanctioned event. Of course, one long drive doesn't prove much. In fact, many would call it a fluke.

But then what would you call it when Gary Klahn, of Fullerton, California, aces a 342 yard hole with a Yonex A.D.X. 200? A driver that he's never swung before.

Another fluke?

Maybe not. Especially when you consider that PGA touring pro Scott Hoch recently switched to Yonex. And then jumped from 48th to first place in total birdies on the tour.

Pure luck? Talent? A little bit of both? Actually, there's a much more plausible explanation.

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All of which will help anyone make shots worth writing about. The 300 yard drives. The 400 yard double eagles. And even the elusive holes-in-one. Believe it or not.





become the touchstone of a much larger company, not because of its success but because of a disaster.

Colbert decided to play in his only British

Open that summer. That was after taking out a loan in excess of \$1 million to refurbish Desert Rose. Among the things Colbert and Fogler did was to reconstruct two flood channels that went through the property, never thinking that there would actually be some terrific flood in Las Vegas.

After the British Open Colbert and his wife Marcia were sailing back to the U.S. on the QE2. Jim and Marcia just loved going first class. When they came down to breakfast the second day at sea, people at the table were remarking how terrible the floods had been in Las Vegas. And suddenly Jim Colbert was having a lot of trouble with his eggs.

The floods had devastated Desert Rose, ripping up the irrigation system and taking some heavily fertilized and expensive soil on a journey to Lake Mead. Goodbye, a million bucks.

Colbert had been fortunate to bring in a businessman friend to the project, Dee Hubbard, owner of AFG Industries. After they had inspected the damage, Hubbard gave Colbert a check for \$200,000 and told him to keep the accounts current. Well, that was just fine, but they would have to get more money for the long term to repair and maintain Desert Rose.

That's when the old bulldog in Colbert really came out. He went out and found a third course, then a fourth and a fifth to expand the business and thus its base of revenue. "I had to get these other courses just to pay for Desert Rose," Colbert said. "It cost us a million and a half and a couple of years to fix . . . it was the course that made our company grow."

Colbert Golf eventually grew into an organization with 22 golf courses and 800 employees from California to Florida.

Colbert continued to play PGA TOUR golf until 1987. The U.S. Open was at the Olympic Club in San Francisco that year, a hilly and physically demanding course that can exhaust even the most well conditioned golfer. And there was Jim Colbert, with an electronic stimulating device for his bad back and braces on both knees, trying to play the U.S. Open.

He decided that he had had enough. Colbert didn't play another tournament until the Mexican Open in 1990.

Instead, he pursued a career in television, something that had interested him enough to study in college. Bruce Devlin was just quitting his job as commentator on ESPN golf broadcasts to join the Senior TOUR, and PGA TOUR Commissioner Deane Beman, a friend of Colbert's from their early playing days, suggested he call Paul Spengler, who was producing the telecasts for Ohlmeyer Communications. Spengler agreed to give Colbert a tryout covering three Senior TOUR events in Florida. And for the next three years Colbert followed the Senior TOUR.

He didn't leave his work ethic back in the office when he became a television commentator. "When a golf pro talks about another golf pro, it's easy at first," said Colbert. "But what do you say the 18th time that Miller Barber comes down the fairway? You have to go out and get to work. I'd be out examining the lie and the kind of options the player had on any particular shot. And we would always do our homework on what players had been doing recently."

The television experience did two things that ultimately led to his success on the Senior TOUR. One, it helped stoke the competitive fires, and two, it kept him from playing competitively. It's an odd thing, that not playing could help someone play well, but Colbert insists that it is true in his case. He just plain forgot all the bad habits that plagued his swing.



Jim Colbert's success in business translated into a winning rookie season on the Senior TOUR.

"All the little idiosyncrasies just went away," he said.

His intention was to start a year before he was eligible for the Senior TOUR, practicing intensively, playing competitively here and there. To do this he would have to sell Colbert Golf. This would insure that his bank account wouldn't be dependent on his golf swing. "I didn't want to be a 50-year-old who came out here and had to make a living," Colbert said. "I just wanted to be able to compete at the highest level I could, and money would not be a factor."

Colbert has clung to the high life tenaciously over the years. Whether as a player, a businessman or a television commentator, Colbert loves to live well. He achieved another goal at the end of the 1991 season which was to win the Cadillac Series, a competition where players are awarded points based on their finish in televised events. Colbert won three different Cadillac cars.

"I love those Cadillacs," Colbert said.

There is something regal about a bulldog in a Cadillac.

But what do you say the 18th time that Miller Barber comes down the fairway? You have to go out and get to work."

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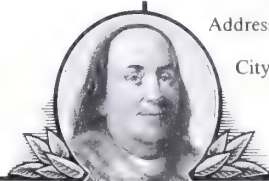
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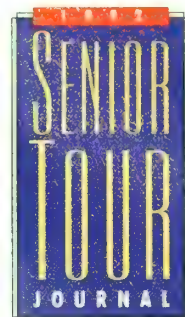
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Jerry Barber
GOLF





THE MOST SENIOR SENIOR

BY JACK BERRY

Four years ago Tom Barber took his son, Tommy, 6, to Las Vegas to watch Jerry Barber play in the Las Vegas Classic.

"I wanted him to have a remembrance of his grandfather when he was involved with all those great players. We were at the 18th green and an older fan, a man in his 70s or 80s, asked 'Is that Jerry Barber coming up?'"

"I said it was and Tommy said 'That's my Grandpa!'"

"The fan told Tommy 'Your Grandpa keeps me going. He's a wonderful inspiration.'"

Jerry Barber is like that rabbit in the battery commercial — he just keeps going and going and going. At 75 and celebrating his 50th year as a professional, he is the most senior of the seniors on the Senior PGA TOUR and the spry, trim little man with glasses, and the baseball-type cap is an inspiration at every Senior TOUR stop.

"They always ask me 'Gonna shoot your age today, Jerry?'" Barber said. "I always tell 'em I'm gonna try."

More often than not, he does. Barber shot his age or better 51 times in 96

rounds in 1991. And he had a pair of rounds in the 60s.

But he's been an inspiration for more than those amazing achievements. Jerry Barber is only 5-feet, 5-inches tall and weighs only 142 pounds. He's been David against Goliath from the moment he stepped on the Regular TOUR in the 1950s.



How does he do it? Heredity, vitamins and hard work.

"My mother was 103 when she died, and my dad was almost 87," Barber said. "My sister is 88, one brother is 82 and another is 77. There are nine children, age 72 to 88, and we're all healthy. My brother Charlie broke his arm a few years ago, and when he went to the hospital, they asked him if he'd been hospitalized before. He said the only times he'd been in a hospital was to visit people — he wasn't even born in a hospital."

"I'm heavy on vitamins, all the B complex, the energy vitamins, B-1, B-2, B-6 and B-12, 100 milligrams. Just to test myself once, I went 4 to 5 days without them and it made a big difference," Barber said. "I eat a lot of fruit and vegetables, I eat a lot of chicken but not much meat."

Not surprisingly, one of Barber's good friends is Jack LaLanne, the exercise guru.

"Jack is 77 and he's incredible, *un*real."

"They always ask me 'Gonna shoot your age today, Jerry?'" Barber said. "I always tell 'em I'm gonna try."

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"Some guys would say I was a fool, that I couldn't beat those guys and I was just donating money," Barber said.

"But I felt if you were going to go to school you had to pay for your education. I felt you couldn't learn from people you always beat.

"I never could drive the ball farther than I could throw it so I worked on my pitching, chipping, bunker play and putting," Barber said, and then he laughed. "I didn't realize this wasn't my bag until I had too much invested in it to do something else.

"There's more to playing the game than hitting the ball. You have to play with your head. After you learn how to hit it, then you have to learn the game," Barber said.

"When I was 17 I caddied for Dad in the 1959 Southern California March

Play Championship," Tom said. "When you caddied for him you had to move. You had to beat him to the ball and have the bag on the ground. We'd get to the course early, and he'd eat his figs and prunes and juice and then he'd practice.

"They played two rounds a day, and he walked every step. After the afternoon match he'd practice again — he'd say he wanted to wait until the freeway cleared. I never made it to the freeway awake, and the freeway was only a couple of miles from the course. He won the tournament, and he was 43 then.

"I have to be one of the luckiest guys in the world," Tom said. "In the years I was 9 to 15 I traveled with him and saw Dick Mayer, Gene Littler and Billy Casper, all the great players. And I saw Arnold Palmer come up.

"In 1953 we were at George May's World Championship and All-American Cup. Dad and Babe Zaharias were the

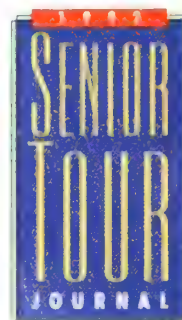
pros, and Arnold Palmer and Mickey Wright were the amateurs. We had dinner with George Zaharias and Babe. I told Dad he was in pretty elite company, and he cleared his throat and gave me his All-Star grin and said "It seems to me they're in pretty elite company."

"I asked him once if he had it to do over, what would he have done and he said, 'I probably would have worked harder.' I couldn't believe it. We were the first ones there every day and the last to leave," Tom said.

Few have worked harder than Barber who won seven times on the Regular TOUR, including the 1961 PGA Championship, where he caught Don January with an incredible birdie-par-birdie finish on putts of 20, 40 and 60 feet and then beat January the next day in the playoff. Barber was 45 years old then and said "I think I'm in the best condition of my life. I see no reason at

Challenging,





all that I shouldn't continue playing good tournament golf for several years."

Remember that was 1961, when Barber was 45 and Jack Nicklaus was still an amateur. In 1991 Barber and his grandson Jeff, 24, left Los Angeles in April and didn't return until October. Barber played every tournament and often; when he got done early, he and Jeff would go to another course for a round so Jeff could play.

"Lee Trevino says no one in the world loves golf more than he does," Tom Barber said. "Lee's wrong — no one loves it more than Dad."

Because of the Senior TOUR regulations, Barber may be able to play only 30% to 40% of the tournaments in 1992. Barber's eligibility is based on the all-time money list, and

players who are just turning 50, such as Dave Stockton and Kermit Zarley, who hit 50 late in the 1991 season, and Isao Aoki, Tom Weiskopf and Raymond

Floyd, who become seniors in the second half of this year, are well up the list. They benefited from the huge purses that are now the norm in golf.

"When I won, I got \$2,000," Barber said. "Now guys win \$325,000 for winning one tournament."

Barber's Regular TOUR career earnings were \$177,848. He's won \$421,932 in 11 seasons as a senior.

"We used to drive 1,000 miles to play for a \$10,000 purse. When they got to \$15,000 to \$20,000, we thought we were in hog heaven. No one could visualize what has happened to golf.

"It certainly has got a lot more people interested in trying to get out here. I met a dentist who said he'd sold his practice and was going to try the Senior TOUR. I said 'You gotta be dreamin'!' With the guys we got out here, the Hill brothers, Geiberger, Casper, Chi Chi, Lee. These are great players! I never saw the dentist again. I hope he was able to buy back his practice.

"My lifestyle hasn't changed, and it's nice to go to a lot of cities that didn't have tournaments when I played the TOUR, like Lexington (Ky.), Seattle, Sacramento, Tampa, Winston-Salem, Newport (R.I.), Park City (Utah), and Maui (Hawaii).

"It's a dirty job, but somebody's gotta do it," Barber said, twinkling.

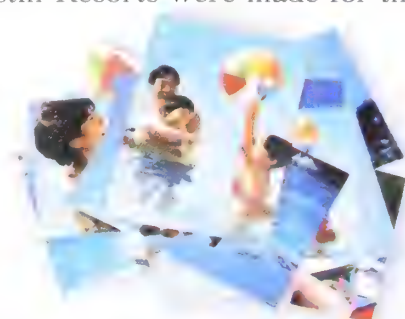
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SENIOR TOUR FITNESS

BY BRUCE CRAMPTON
WITH PHIL STAMBAUGH

Bruce Crampton, a winner of 14 PGA TOUR titles and 18 Senior PGA TOUR championships, has been an avid believer in physical fitness for many years. While out on the road during the Senior TOUR season, Crampton vigorously works out daily in the Centinela Hospital Fitness Van and uses a series of stretching exercises that are designed to help him maintain his flexibility and provide longevity. Here are six simple stretches that Bruce uses in his daily routine. These exercises take only a few minutes and are great to do in the winter months or prior to your next round. Give them a try. You might be amazed at the results.

Posterier Shoulder Stretch

Bruce uses this stretch to increase flexibility in the back portion of the shoulder. Stand erect and first extend your left arm across your body and grasp the back of your elbow with the right hand. Pull the arm across your body and under your chin, as far back as you can without rotating your torso or turning your head. Hold for several counts and then switch to the right arm.



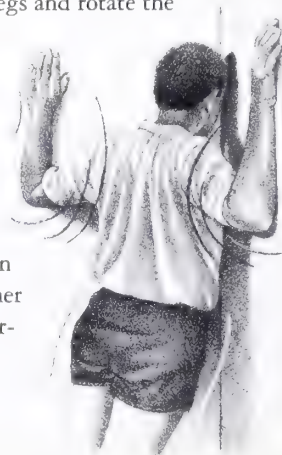
Sitting Trunk Rotational Stretch

Since the lower body area is used extensively in the golf swing, it is important for Bruce to maintain strong and flexible muscles through the hips, thighs, lower back and abdomen. Sit on the floor and cross your left leg over your straight right leg so your foot is outside of the right knee. For support, place your left hand on the floor behind you. Rotate your upper body to the left and place your right hand against the outside of your left thigh. Pull the thigh towards your mid-section while maintaining your rotated trunk position and hold for several seconds. Switch legs and rotate the trunk in the opposite direction.



Chest Muscle Stretch

Bruce uses this stretch to help him retain the maximum range of motion in the upper body and to make sure that the chest muscles remain loose while in the address position over the golf ball. Using any corner of a room, place the forearms against the adjoining surfaces and lean into the corner as far as you can. Look straight ahead and let your body sink into the corner. Push back to a starting position and start again.



Facts are facts. Cleveland Wedges are number one on the PGA Tour.



DARRELL SURVEY COMPANY

1991
The Players Championship
Tournament Players Club
Ponte Vedra, Florida
March 28-31, 1991

ALL WEDGES

CLEVELAND	70
PING	61
WILSON	46
HOGAN	25
MIZUNO	25
TAYLOR	13
T. ARMOUR	11

3.2%

DARRELL SURVEY COMPANY

1991
The International
Castle Pines Golf Club
Castle Rock, Colorado
August 15-18, 1991

SAND WEDGES

CLEVELAND	62	31.0%
PING	42	21.0%
WILSON	22	11.0%
HOGAN	18	9.0%
MIZUNO	11	5.5%
TAYLOR	9	4.5%
COBRA	7	3.5%

DARRELL SURVEY COMPANY

1991
MCI Heritage Classic
Harbour Town Golf Links
Hilton Head, South Carolina
April 18-21, 1991

ALL WEDGES

CLEVELAND	62	21.4%
PING	54	18.6%
WILSON	36	12.4%
HOGAN	28	9.6%
MIZUNO	17	5.8%
T. ARMOUR	14	4.8%
TAYLOR		3.8%

In 27 out of 44 tournaments on the PGA Tour in 1991, Cleveland was the most played wedge according to the Darrell Survey.

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The fact that the Cleveland wedge system won 19 times on the PGA Tour in 1991 makes it a good place to start.

The Darrell Survey information is a statement of fact and is not an endorsement

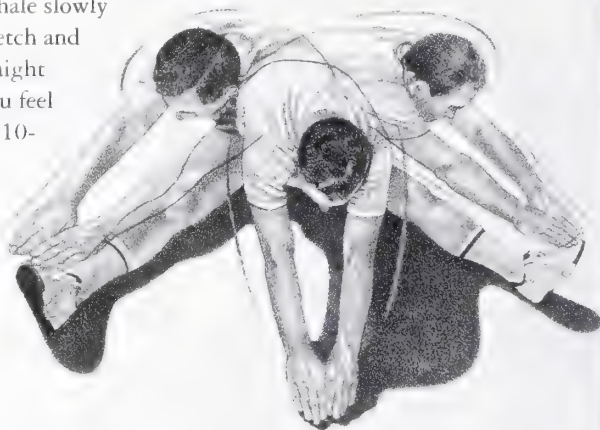



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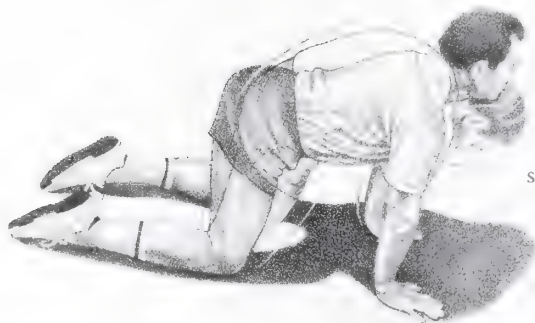
Hamstring Stretch

This exercise stretches the lower back and hamstrings as well as the muscle group located between the buttocks and the back of the knees as well as the calves. Bruce believes that doing this will help him avoid lower back pain and contribute to a more efficient golf swing. First, sit on the floor with legs extended and spread. Gradually lean forward from the waist toward the right knee and slide the right hand toward the ankle. Exhale slowly when you lean into the stretch and try to maintain a fairly straight knee. Stretch only until you feel some resistance, hold for a 10-count, and then repeat. Repeat the same stretch with the left leg. Finally, move to the middle and reach between the legs, leaning straight forward as far as possible.



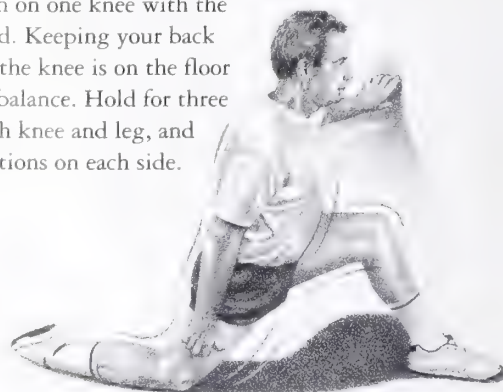
Cat and Dog Stretch

This exercise is specifically designed to increase flexibility in the spine. Good spinal mobility allows the shoulders to rotate freely, which is one of the keys to a sound, repeating golf swing. Get on hands and knees. Arch your back toward the ceiling and lower your head toward the floor. Hold for three to five seconds. Slowly reverse the arch in your back toward the floor, and gently raise head toward the ceiling. Hold for three to five seconds. Repeat steps one and two for a total of 10 repetitions.

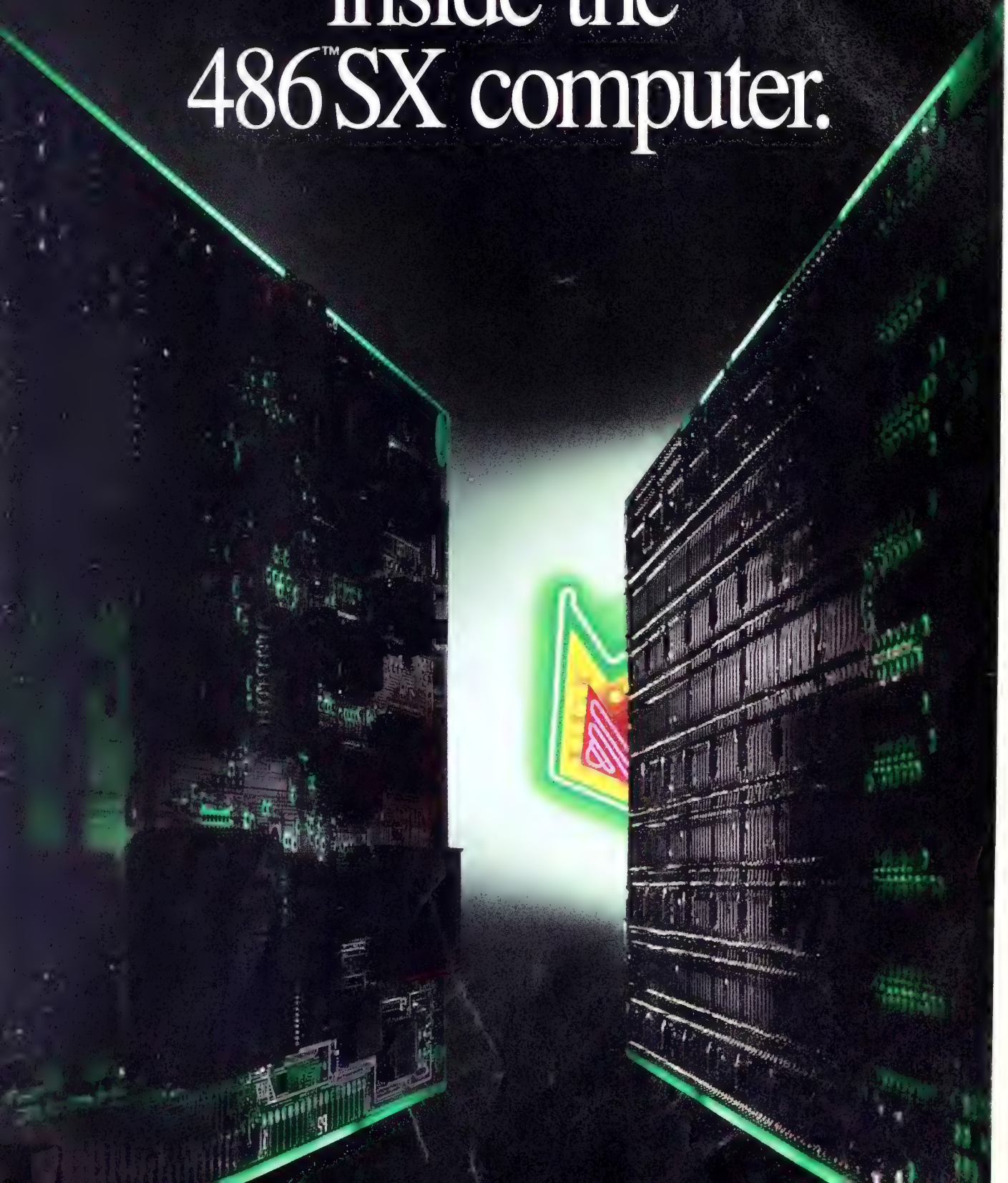


Hip Flexor Stretch

Hip rotation is where you get power in the golf swing. This stretch allows Bruce to turn his hips faster and, therefore, generate a larger amount of clubhead speed to propel the ball a long way. Get down on one knee with the other leg in front of you as illustrated. Keeping your back straight, bring your hips forward so the knee is on the floor behind you. You may use a wall for balance. Hold for three to five seconds. Switch positions with knee and leg, and repeat above step. Perform 10 repetitions on each side.



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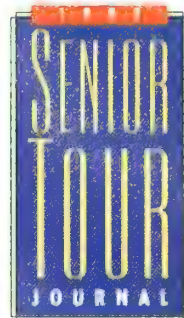
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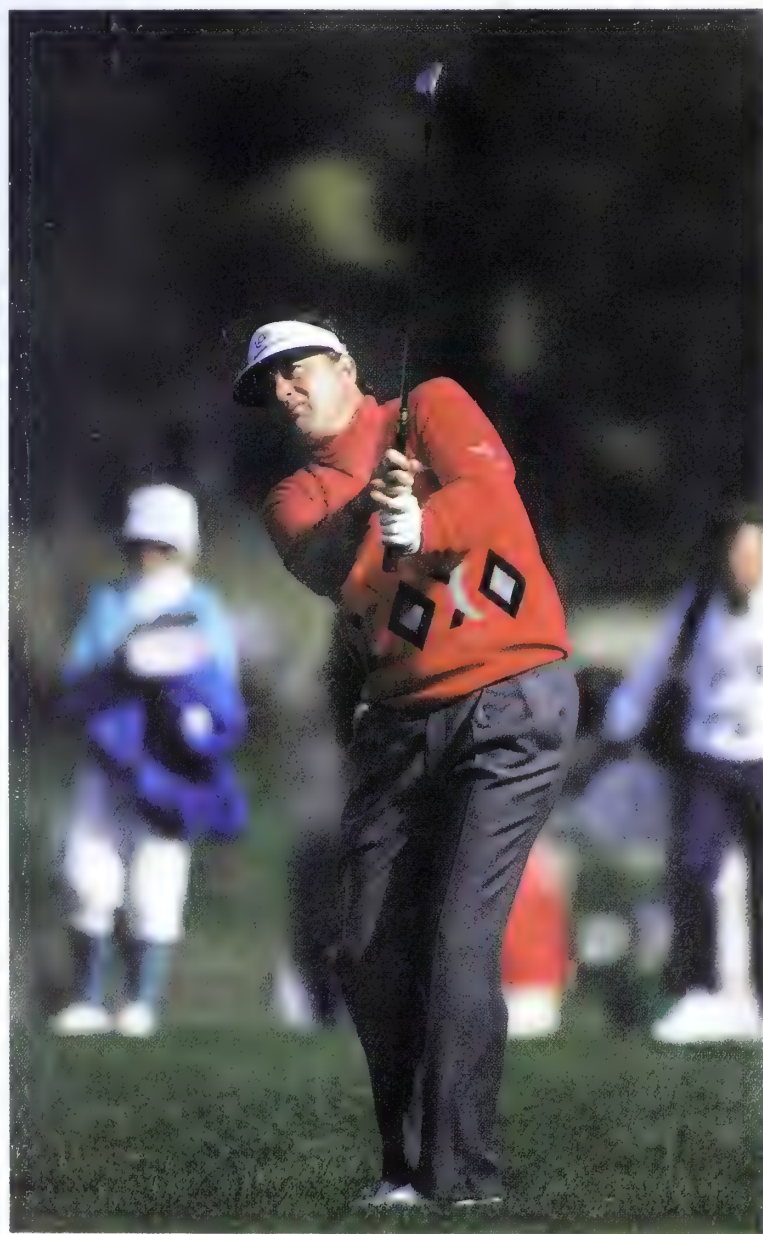
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CLASS OF '92

BY HELEN ROSS



Raymond Floyd was a brash, bold 20-year-old with a ton of talent when he joined the PGA TOUR in 1963.

When he edged Dave Marr by a shot to win the St. Petersburg Open later that year, he wasn't even old enough to vote. Most of his contemporaries were contemplating the age-old question — "What am I going to do with the rest of my life?" — as Floyd went on to record two other top 10 finishes and was named *Golf Digest* rookie of the year.

The Army brat with the broad shoulders and the booming drives would quickly earn the respect of his peers on the PGA TOUR. Men like Arnold Palmer, Chi Chi Rodriguez, Bob Charles, Bruce Crampton, Gene Littler, Don January and Al Geiberger soon began to regard him as their equal.

In the intervening years, Floyd has won 21 tournaments and more than \$4 million. He has remained competitive well into his fifth decade, winning more than \$284,000 and posting five top 10 finishes last year at age 49. Floyd's tenacity and talent are so respected, he was one of the two players Dave Stockton selected to complete the 1991 Ryder Cup team — one that emerged victorious last September.

But Floyd's life will have come full circle with his 50th birthday on September 4. He becomes eligible to play the Senior PGA TOUR at that time, following Isao Aoki by four days and preceding Tom Weiskopf by nearly two months.



"I'm just looking forward to getting out there with my old buddies. I started out so young that all these guys left me. It will be great to be out there with those guys again."

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SENIOR TOUR JOURNAL

Once again, Floyd will be the rookie. But — it's a role he relishes — and not just because those "rookies" have traditionally had considerable

financial success on the Senior TOUR.

"I'm just looking forward to getting out there with my old buddies," Floyd explained. "I started out so young that all these guys left me. It will be great to be out there with those guys again."

"It's coming up on 30 years for me now. That's a lot of competition and a lot of playing. It will be neat to get back to the way I came into the game."

With Palmer, Rodriguez, Littler, January — et al., Floyd shares that sense of history. Those men played the TOUR in its formative years, at least as far as the modern era is concerned. They promoted themselves and the tournaments, along the way laying the foundation for the enormous success the PGA TOUR has become.

The late 1950s and '60s were a time of record growth for golf, a game for all ages popularized by a popular president named Dwight Eisenhower. But most importantly, it was a time when television put the public in touch with an affable character named Arnold Palmer.

"The purses on our Regular TOUR have tripled in the last 10 years," Floyd said. "And the Senior TOUR has grown by leaps and bounds. But it was the guys who went before who have made that possible."

"Think of Arnold Palmer and what he did for this game. He was the greatest ambassador this game has ever seen. I think about him, and I figure that 20% of all the money I have ever earned should go to him."

"But kids today hear Arnold Palmer's name, and they think, 'Here's a guy who used to play pretty well.'"

Floyd knows better. And he also knows what it was like in those early days.

"When we started out," Floyd explained, "people didn't meet you at the airport, and we didn't have the courtesy transportation. We used to get



Raymond Floyd has remained competitive well into his fifth decade, winning 21 tournaments and more than \$4 million.

an automobile on occasion — and we wrote thank-you letters afterward. Now the guys probably wouldn't play if they didn't have a car. They basically have carte blanche.

"I am not taking anything away from all the young guys. But when we came out, it was a much different atmosphere and much more difficult. I think we had to give a lot more, and I see that happening on the Senior TOUR."

The once flamboyant Floyd has mellowed and married — he and Maria are now raising three children. He is looking forward to having more time to follow his sons' football and baseball careers, as well as their considerable accomplishments on the golf course. His daughter Christina, the youngest, turns 13 in September.

But Floyd does plan on playing a full schedule of Senior TOUR events. That means a minimum of 20 and a maximum of about 24 — basically the pace he has maintained on the PGA TOUR. He also will play the four major championships, which will give Floyd an opportunity to renew acquaintances with the flat-bellied juniors he so recently left.

"But I've done my thing on the Regular TOUR," Floyd said. "If I'm still playing very well and continue to be competitive, I might play more (on the PGA TOUR). But I basically want to be with my own buddies."

"It's almost like retirement. I've done 30 years — and 30 years is a long time. The rigors and hardships on the Senior TOUR are not the same. There are a lot of three-day events, and you have more time to relax."

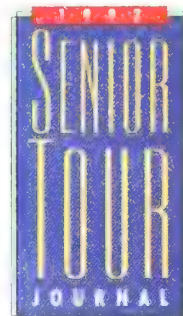
Floyd turns 50 on Friday, September 4, which is the opening round of the First of America Classic. Because he'd like to qualify for the \$1.5 million Vantage Championship — which will be contested October 2-4 — Floyd plans to play three or four straight events as soon as the birthday celebration is over.

"I don't think it will be quite like my first tournament as a rookie," Floyd said. "But I know I'll be edgy and excited."

Floyd may be more excited at the end of his rookie debut.

Players like Floyd who have continued to play through their 40s have a history of dominating the Senior TOUR.

"I don't think it will be quite like my first tournament as a rookie," Floyd said. "But I know I'll be edgy and excited."



Take Lee Trevino, for example — who made more than \$1 million in his first full season. Or George Archer, one of four players to win the first Senior TOUR event they entered.

"You never know how things will turn out," Floyd said. "But hopefully — if I can stay healthy and stay competitive — I would come out with high expectations. I am very excited about playing the Senior TOUR."

Regardless of how financially successful his first season is, though, Floyd will be happy just to be competing with his old friends again. There will presumably be some serious story-swapping when they get to the privacy of the locker room.

"And boy-oh-boy, I need to catch up," Floyd said with a smile.

Weiskopf, too, needs to do some catching up — primarily on the golf course. He has not competed regularly since 1984, preferring to concentrate on golf course design and television commentary. In fact, he has played in just 12 tournaments since that time and tees it up only occasionally with friends.

"I had a very subdued commitment to playing," Weiskopf admitted. "I lost my motivation to compete, and I didn't want to stay out there and get used to mediocrity."

"Subsequently in looking back, I've been very fortunate because I have enjoyed both (the TV work and golf course architecture). They were very different and they changed my life and my attitude."

"But lately I have experienced a rekindling of the desire, and that is because of the Senior TOUR."

To prepare, Weiskopf plans to play between 12 and 16 events this year on the PGA TOUR. Since he still ranks among the top 50 career money winners with more than \$2.2 million, he is eligible to play in any TOUR event he wants — "that's my luxury," Weiskopf said.

Regaining the competitive edge that made him a 15-time winner on the PGA TOUR will be a slow process for a

man who has been in the hunt only for wild game of late. But Weiskopf is confident he can become a force again.

"If I could put it on the scale of one to ten and I was looking at the 1970s — which was my best time on TOUR, I'd say my game ranged from 7.5 to 9," Weiskopf said. "Probably 50% of the time you are very satisfied and putting yourself in a position to win."

"Knowing those parameters, today I'd say I was right at 4.5 to a 6. I haven't played that much, and I know it's going to take a lot of hard work. I'll have to be patient. I'll never reach the 9 level, but I think 8 is realistic."

"On the Senior TOUR, the scale might be drastically changed. If I approach the Senior TOUR right, there's no reason I can't have a better career. My level might go from an 8.5 to a 9."

By the time he turns 50 on November 9 then, Weiskopf will have played enough to realistically assess his

progress. But since there are only two Senior TOUR events remaining, Weiskopf will essentially be pointing toward 1993.

"And besides, I enjoy my falls," Weiskopf added. "I still love to hunt and fish."

Because he also wants to stay involved in the design business, Weiskopf doesn't expect to play more than 12 to 15 Senior TOUR events. His goal for that first year is simple — to play and see if he still enjoys being in the hunt.

"I am fortunate to have financial stability so the money is not an issue," Weiskopf explained. "Some people in the past (have looked at the Senior TOUR) and licked their chops. But I do not fit into that mold."

"It is — and always has been — the competition for me. If you think of it only as money, then you are not a winner in my mind."



Tom Weiskopf plans to warm up by playing on the Regular TOUR prior to joining the Senior circuit.



TIPS FROM THE PROS

Shift Your Weight For Lower Scores

BY LARRY LAORETTI
WITH PHIL STAMBAUGH

Success or failure in the business world can sometimes be the difference in a person's ability to act quickly and think fast in making the correct decision. Many of my amateur playing partners are highly successful in the corporate world and carry these traits with them on the golf course.

I find that this type of mental conditioning can have an adverse effect on a person's golf game. Those that move at a hectic pace are always in a hurry to shoot a low score when they reach the first tee. They all seem to subscribe to the same theory, swing hard and swing fast! If they would follow a few simple concepts that have helped me over the years, I think they could improve themselves in a short period of time.

Almost invariably when a player attempts to hit the ball with a great deal of force, he ends up with poor balance. His weight will not shift properly when he takes the club back. He tends to stay on his left side in the backswing and move to the right in the downswing. In thinking he has made the correct move, he has just done the opposite.

Like any other sport, the golf swing is an athletic move. If you relate it to a pitcher's motion in baseball, it becomes easier to understand. For maximum efficiency, a pitcher's weight will first move back on his right side in the windup and then shift gradually to the left as he unwinds his body and moves toward the plate.

The golf swing is no different. It is essential that your weight

shift first to the right side and then be allowed to move through the golf ball in the downswing.

I usually think of a few simple keys to make sure that I shift my weight properly. First, I try to take the club back away from the ball in one piece. In their haste to hit the ball, most high handicappers will jerk the club away with the hands. The club-head, hands and arms should all move together in slow motion from the shoulders in conjunction with the lower body. I also will move my left shoulder past the ball in the backswing. If my eyes can see that the left shoulder blade has moved behind the ball at the top of the swing, then I am assured in knowing I have made a full turn with my body and my weight has shifted. My final check will take place after I contact the ball. If I have made a proper swing, I should be able to almost pose for pictures with my follow through. In order to achieve proper balance, try to remain still for several seconds after striking the ball.

Keep these simple thoughts in mind and you should be able to soon see some positive results with your golf game. Just remember, no one ever hit a golf ball with their backswing. Why take the club back quick? Don't be in a hurry, what's the rush?

Larry Laoretti served as a club professional for over 20 years on Long Island, NY, prior to joining the Senior TOUR in 1989. Last year, he enjoyed his best season ever and earned more than \$350,000 in official money.



Larry Laoretti

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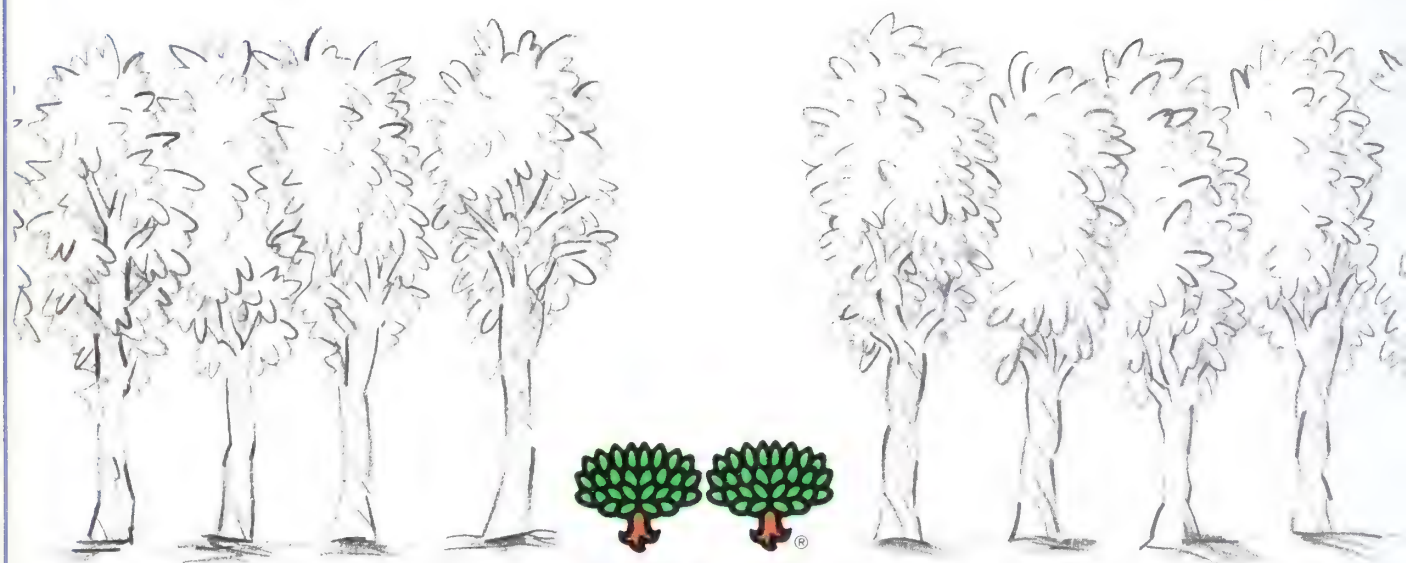
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Widen Your Arc For More Distance

BY RIVES MCBEE
WITH PHIL STAMBAUGH

Can you tell me how to hit the ball further? It's the most asked question I get in my travels across the country on the Senior TOUR.

What seems to be an ongoing dilemma for the amateur golfer becomes increasingly more difficult as one gets older and loses the body flexibility he once had as a youth.

The main problem I see with the swings of a majority of my pro-am partners is that their arc is not big enough to generate the necessary clubhead speed and power required to hit the ball a long distance. To better explain this fault, think of your body in the middle of a clock with the ball sitting at the six o'clock position. Most amateurs really only take the club back no further than nine o'clock and finish their swing at the three o'clock position on the follow through.

I think the natural reason for this is tension. The golf muscles are much too tight to start with. The amateur is also in too big a hurry to hit the ball. He will take the club back much too fast and then rush to strike the ball from what he believes is the top of the swing. High handicappers who don't complete the backswing will also quit at impact, causing the ball to go to the right. The slice comes from giving up on a shot as a result of swinging waist high from nine o'clock to three o'clock.

I tell people that for more distance, they first probably need to relax. A

simple remedy might be nothing more than doing several stretching exercises before playing a round. To reduce the tension, I tell players to reach towards the sky with their hands above the shoulders and hold that position for several seconds. They should feel some tightness in the back muscles and realize that this is probably the reason they can't get the club all the way to the top.

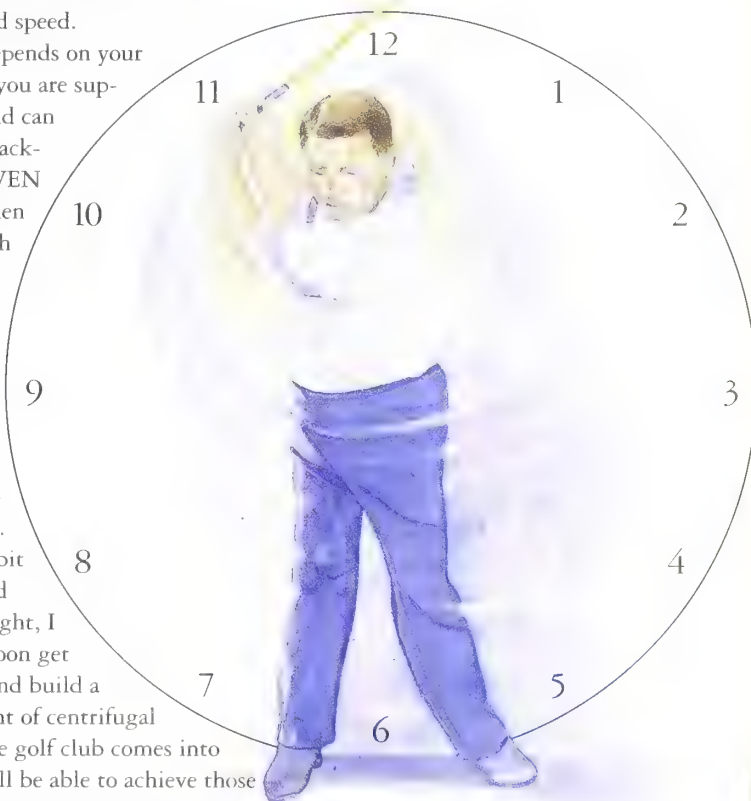
The other alternative for most amateurs is to extend the backswing. An excellent swing key that I use is to draw a mental picture of Father Time and concentrate on taking the club back to the TEN o'clock position and then come through with the hands and club finishing the swing at about TWO o'clock. With the hands now above the shoulders on the backswing, the arc will be extended and should create more clubhead speed.

It really depends on your flexibility. If you are supple enough and can extend your backswing to ELEVEN o'clock and then follow through to ONE o'clock, that's even better! Again, I stress to envisioning the hands on the clock during the swing. With a little bit of practice and this new thought, I think you'll soon get more power and build a greater amount of centrifugal force when the golf club comes into the ball. You'll be able to achieve those extra yards you've been missing out on for years.

Rives McBee won the National Club Professional title in 1973 and has also won three Senior PGA TOUR titles in his career.



Rives McBee



There's no denying that Jim Dent was a superb golfer long before he held a Callaway of any sort in his hand. But when he got his hands on Big Bertha, history was made.

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Jim Dent was the longest-driving pro on the PGA Senior Tour. Then he got his hands on a Big Bertha.

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John Daly 288.9 yds.

Jim Dent 286.4 yds.

Greg Norman 282.3 yds.

Fred Couples 280.7 yds.

All figures based on official PGA statistics at or near 1991 PGA season end

276.8
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(1990 12-MONTH
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HIZZONER? HIZZWINNER!

BY LARRY DORMAN



It is late on a crisp Carolina afternoon, and the mayor is dancing on the practice green. This is not ballroom dancing, or some variation of a Texas Two-Step or even the dirty dancing gyration the mayor has been known to groove to.

No, the man is doing the Moonwalk. He is in his stocking feet, having danced out of his Foot-Joys, and he is attempting now to dance out of his socks. Slowly, the socks recede as he seems to float backwards across the putting surface. A small cluster of curious men, what's left of the pro-am contestants at the Vantage Championship, stand and watch as he says, "Someday, I'd like to do this after sinking the winning putt."

Why, you may ask, is this man dancing? Why is Rocky Thompson, part-time mayor of Toco, Tex., (pop. 138) and full-time player on the Senior PGA TOUR, making like Michael Jackson in broad daylight, here in this bastion of conservatism, where tobacco and Jesse Helms are still kings?

A more pertinent question might be: why not?

After 27 years of futility — nearly three decades of showing up at the big dance only to watch other players stroll away with the prizes — Rocky Thompson has something to celebrate. He is a winner. Finally, the frustration has ended. He won two Senior PGA TOUR tournaments in 1991 and has emerged as the latest testimony to what can happen when a man takes advantage of the second chance that is the Senior PGA TOUR.



"When I got that first win, what it meant to me was satisfaction and accomplishment and elation and relief, all rolled up into one."



His name is Hugh Delane Thompson, but he was better known as "King Rabbit" out in the caddie barn. They called him that because he

played in more PGA TOUR events than any other non-exempt player. Monday qualifying events were his domain. If they had paid for first place at those gut-wrenching Mondays that the pros call four-spotters, Rocky could have retired to the easy life a long time ago. But all you got for winning was a ticket into the tournament, and before he won a TOUR event, Thompson, 51, had played in 611 tournaments — most as a rabbit, a Monday qualifier. He was one of the many obscure players who chased the TOUR from stop to stop, hoping to somehow make the cut and make the cash that could keep the dream alive for another week.

The obscurity was, in part, his own doing. When he began on the Regular TOUR in 1964, two years removed from the University of Houston and ready to party, he played as much off the golf course as he did on it. He had a quick wit and a ready smile and, he confesses somewhat ruefully, a girlfriend in just about every town where the TOUR stopped.

"The first 10 years on the TOUR, I was a bachelor and I partied hard," Thompson says. "When I would hit town, the first thing I'd do was find out where the rock and roll dancing was. I could name you every hot spot in every town on the Regular TOUR. I loved to dance. I knew 40 different steps, still do. Most of the time, I was out late. It didn't exactly do me any good on the golf course."

After he got married in 1973, Thompson didn't have too much trouble foregoing the fast lane. But he discovered that his game was not up to the fast company he was keeping, not even close to the level it had to be to succeed. After a

decade on the TOUR, he had won barely more than \$100,000. He would search more than 10 more years for the keys to the game that consumed him. In the meantime, he took over the keys to the city of Toco, a town incorporated by and named after his father, who owned the Thompson Oil Company. The town is two miles west of Paris. It has 38 homes serviced by three water tanks, zero traffic lights and a liquor store that doubles as the jail. There haven't been any prisoners held overnight — "what would breakfast be, Bloody

Marys?" — and that's just fine with the mayor, who is pleased with the low crime rate.

Thompson enjoys the mayoral designation, a largely ceremonial title although there are those water and sewer meetings a few times a year.

Thompson enjoys the mayoral designation, a largely ceremonial title although there are those water and sewer meetings a few times a year. What makes him happier still are the low scores and big paychecks he has been scoring on the Senior PGA TOUR. By the end of the year, he had earned \$435,794 in 35 events, about three times as much as he earned in 20 years on the Regular TOUR, and had tied Mike Hill with 400 birdies.

And there is something else that made him very proud. His game, once a kind of pitty-pat affair, had evolved into a big league deal.

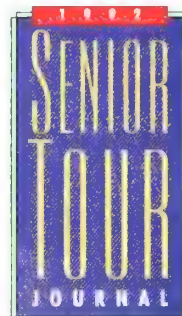


"Hizzoner," Rocky Thompson, mayor of Toco, Texas.

Like the other players who have found success on the Senior TOUR after relative obscurity on the Regular TOUR — Walt Zembriski, Don Bies, Rives McBee, Jim Dent — Thompson had to make a large adjustment. His was exactly the opposite of Dent's. Where Big Jim was always very adept at the long game and deficient in the short game, Thompson could putt the eyes out of it but couldn't drive the ball out of his shadow.

"I was so short it was, well, it was embarrassing," he says. "There were times when I felt like I was the best putter in an event, but, hell, I couldn't hit the ball anywhere. I was the shortest hitter out there. Now I wish I could go back and play some on the Regular TOUR with where I'm driving it now. I tell you, I could be a threat, the way I used to putt."

That might not be idle ruminating. Thompson is very long by Senior stan-



dards. He is ninth on the driving distance list, averaging 266 yards off the tee, and with all that length come a whole lot of birdies — 400 of them, a Senior TOUR high in that category. He gives credit for the ball-striking turnaround to two Texas teachers, Hank Haney and David Lee. And the year before he came out to play the Senior TOUR, Thompson did nothing but beat balls, 364 days. But for the psychological turnaround he looks within.

Rocky is a free spirit's free spirit. When he was having trouble with nerves during the Digital Seniors Classic, his second TOUR victory, he strapped on a relaxation device, a sort of light and sound machine that covers the eyes and ears and flashes different colored lights. Hey, whatever works. He calmed down for a final round 70 and a one-shot margin over Bruce Crampton. He'll try shots that you'd better not try at home. During the Vantage, he actually got

into a catcher's crouch, balanced his elbows on his knees and stroked putts with an elongated putter. Once, when he found his ball half in and half out of high, greenside fringe, he bunted it on to the green with a 3-wood.

Is the guy having any fun? He can barely contain his glee. He looks at you with bright blue eyes and twitches his rust colored moustache and says, "This is like fantasyland out here. When I got that first win, what it meant to me was satisfaction and accomplishment and elation and relief, all rolled up into one. It means that all those years weren't wasted and that I wasn't wrong when I thought I could beat these guys."

When he finally did beat these guys back in June at the MONY Syracuse Senior Classic, he reacted in classic

Rocky fashion. He stood on the 18th green during the awards ceremony, theatrically silenced the crowd and shouted, "I am the man!"

Well, he sure is. And now the man is working on his next victory celebration. It will be something different, he's sure of that. Maybe the Moonwalk, maybe the Toco Two-Step, maybe a little samba. Who knows? What's certain is that it will have the mayor's little twist to it.

"I'm sure not gonna stand there and tip the cap and say

"Thank you very much,"" he says. "I guarantee you, something will automatically come out. But ain't no way it'll be the standard thing. There's no way. Not after waiting this long."

He stood on the 18th green during the awards ceremony, theatrically silenced the crowd and shouted, "I am the man!"



Rocky Thompson demonstrates his unique putting technique at the Vantage Championship.



Jim Colbert, 1991 Rookie of the Year.



1991 leading money winner and Co-Player of the Year, Mike Hill.

1992 SENIOR PGA TOUR SCHEDULE

JANUARY

- 9-12 Infiniti Tournament of Champions (Carlsbad, CA) ABC
- 13-19 Open
- 20-26 Senior Skins Game (Mauna Lani, HI) ABC #
- 27-2 Royal Caribbean Classic (Key Biscayne, FL) ESPN

FEBRUARY

- 3-9 Aetna Challenge (Naples, FL) ESPN
- 10-16 GTE Suncoast Classic (Tampa, FL) ESPN
- 17-23 Open
- 24-1 Chrysler Cup (Sarasota, FL) ABC #

MARCH

- 2-8 GTE West Classic (Ojai, CA) ESPN
- 9-15 Vantage at The Dominion (San Antonio, TX)
- 16-22 Vintage ARCO Invitational (Indian Wells, CA) ESPN
- 23-29 (Fuji Electric Grand Slam, Chiba-Ken, Japan) + #
- 30-5 The Tradition at Desert Mountain (Scottsdale, AZ) ESPN

APRIL

- 6-12 Open
- 13-19 PGA Seniors Championship (Palm Beach Gardens, FL) NBC
- 20-26 Liberty Mutual Legends of Golf (Austin, TX) ABC #
- 27-3 Las Vegas Senior Classic (Las Vegas, NV) ESPN

MAY

- 4-10 Murata Reunion Pro-Am (Dallas, TX)
- 11-17 Doug Sanders Kingwood Celebrity Classic (Houston, TX)
- 18-24 Bell Atlantic Classic (Philadelphia, PA) ESPN
- 25-31 NYNEX Commemorative (Tarrytown, NY)

JUNE

- 1-7 Painewebber Invitational (Charlotte, NC) ESPN
- 8-14 Mazda Presents Senior Players Championship (Detroit, MI) ABC
- 15-21 MONY Syracuse Senior Classic (Syracuse, NY)
- 22-28 Southwestern Bell Classic (Kansas City, MO) ESPN
- 29-5 Kroger Senior Classic (Cincinnati, OH) ESPN

JULY

- 6-12 U.S. Senior Open (Bethlehem, PA) ABC
- 13-19 Ameritech Senior Open (Aurora, IL) CBS
- 20-26 Newport Cup (Newport, RI)
- 27-2 Northville Long Island Classic (Jericho, NY) ESPN

AUGUST

- 3-9 Digital Seniors Classic (Concord, MA) ESPN
- 10-16 Bruno's Memorial Classic (Birmingham, AL)
- 17-23 GTE Northwest Classic (Seattle, WA)
- 24-30 Showdown Classic (Park City, UT)
- 31-6 First of America Classic (Grand Rapids, MI)

SEPTEMBER

- 7-13 Bank One Classic (Lexington, KY)
- 14-20 GTE North Classic (Indianapolis, IN)
- 21-27 Nationwide Championship (Atlanta, GA)
- 28-4 Vantage Championship (Clemmons, NC) ESPN

OCTOBER

- 5-11 Raley's Senior Gold Rush (Sacramento, CA)
- 12-18 Transamerica Senior Golf Championship (Napa, CA) ESPN
- 19-25 Security Pacific Senior Classic (Los Angeles, CA)
- 26-1 Kaanapali Classic (Maui, HI) ESPN

NOVEMBER

- 2-8 Open
- 9-15 Du Pont Cup Japan vs. US Senior Golf Match (Narita, Japan) #
- 10-13 (National Qualifying Tournament Regionals) #
- 16-22 Open
- 23-29 Open
- 30-5 (National Qualifying Tournament Finals) #

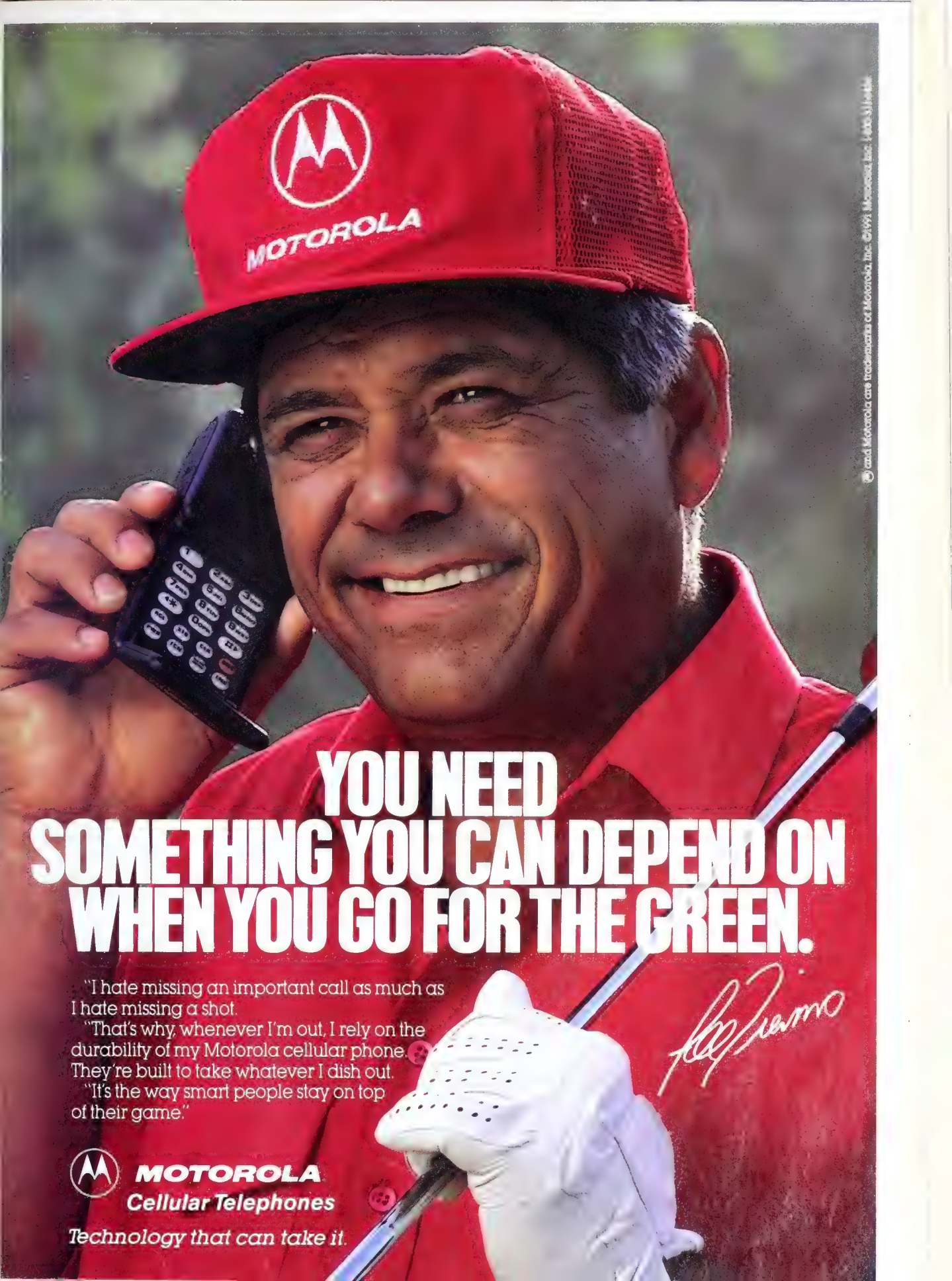
DECEMBER

- 6-13 Senior TOUR Champions (Dorado Beach, Puerto Rico) ABC

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CLINTON BASHES BUSINESS —BUT DOES HE MEAN IT?

His probusiness record as governor runs counter to his rhetoric



RELIEVING THE HEAT: BILL CLINTON AT A NEW HAMPSHIRE PIG ROAST

It's a snowy night in Bedford, N. H., and the entire town seems to be packed into a classic New England town hall to hear Arkansas Governor Bill Clinton. Allegations of womanizing have not stalled his Presidential campaign (page 26), and Clinton is flying high. He revs up his standard speech, tossing out examples of what's wrong with Corporate America and the changes a Clinton administration would make.

He blames self-serving CEOs for ruining the economy with "paper and perks" instead of people and products. He promises to boost the lagging incomes of American workers. He pledges not to dole out special-interest tax breaks that "reward the deal arrangements and serve the rich and powerful instead of average workers who generate the nation's real wealth." Clinton Presidency, he says, wouldn't let compa-



nies deduct executive bonuses, excessive salaries, and golden parachutes from taxes.

The applause meter goes wild as he yells: "When a chemical engineer in New Hampshire can't work like a dog year in and year out without being fired 30 days before his pension vests, only to have the person who fired him sell the company and bail out with a golden parachute, we've lost our sense of community."

Thrashing corporate greed plays well in depressed New Hampshire, where Clinton

holds a tenuous lead in the polls. But does this populist rhetoric match his record as governor? In 12 years in office, Clinton has passed out about \$100 million in special tax breaks to entice companies to expand, and he's been willing to hold off fixing environmental problems to keep plants open. Brochures once published by Arkansas boasted of low wages—it ranks near the bottom in per capita income. Now brochures simply point out that it is a right-to-work state.

CUTTING EDGE. Arkansas has a history of segregation, and civil rights groups fault Clinton for failing to push for legislation barring job discrimination against workers not covered by federal law. Clinton has formed a task force to write such a law. And private groups that rank state working conditions place Arkansas at the bottom in health and safety, enforcement of regulations, and wages.

In short, Governor Clinton has been a lot friendlier to business than would-be President Clinton. Clinton aides confirm that the governor has received numerous campaign contributions from corporate executives. And when he was head of the probusiness Democratic Leadership Council, Clinton was a master at bringing in corporate money. Says Curt F. Bradbury, chairman of Worthen Banking Corp., one of the state's largest banks: "He's got a way with CEO types, and that has stood him in good stead politically and the state economically."

No doubt about it, Clinton has put Arkansas on the cutting edge of economic development. Other states are emulating his Arkansas Development Finance Authority (ADFA). The self-funding state agency sells tax-exempt bonds and offers loan guarantees to provide long-term, low-interest financing to public and private projects.

The state also offers a variety of tax breaks to induce employers to expand their business or move operations there. Companies that have been in the state for two years can take a 7% tax credit on capital investment. And companies that locate in rural, high-unemployment areas are entitled to a \$2,000 tax credit for each new employee they hire. Clinton increased the amount

of state pension funds invested in Arkansas businesses and began the Arkansas Science & Technology Authority to provide seed capital to high-tech companies.

The results have been mixed. Between 1985 and 1989, manufacturing jobs increased 10%, though national manufacturing employment grew less than 1%. But even with the increase in jobs in relatively high-paying in-

CANDIDATE CLINTON VS. GOVERNOR CLINTON

INCOME Clinton attacks Bush for allowing U.S. wages to fall behind other industrial nations. But his state is among the lowest in per capita income

TAX POLICY Clinton clobbers Republicans for raising taxes on the middle class. But Arkansas relies heavily on a 4% regressive sales tax

CIVIL RIGHTS Clinton has blasted Bush for endorsing the 1991 Civil Rights Act only at the last minute. But Arkansas has no employment-discrimination statute

ENVIRONMENT Clinton criticizes Bush's lack of focus. But the Southern States Institute ranks Arkansas 49th among the states, partly because its pollution control board is stacked with industry representatives

JOB SAFETY Arkansas is rated last by the National Safe Workplace Institute on enforcement of regulations, workers' compensation, and accident prevention

DATA: BW

Government

dustries, Arkansas has risen to only 47th among states in per capita income—up from 49th in 1983. The average wage is only \$8.89 per hour, compared with the national average of \$11.20. "I think that's the consequence of weak unions, and that's a consequence of Bill Clinton's support for right-to-work laws," says J. Bill Becker, president of the Arkansas AFL-CIO, who circulated a scathing review of Clinton's 12 years in office to unions nationwide.

TWO FACES. Clinton can hardly take the full blame for the poverty. "You can't turn around 100 years of neglect in 10 years," says ADFA President Bob J. Nash. "Arkansas is still a poor state, and we have a lot of catching up to do."

Arkansas is really two states: Its northwest quadrant is home to fast-growing companies such as Wal-Mart, food processor Tyson Foods, J. B. Hunt Transport Services, and Dillard Department Stores. Unemployment is down around 3%, and business is booming. But to the east in the impoverished—and predominantly black—Mississippi country, unemployment runs up to 25%. "There is no Arkansas miracle," Clinton admits. "But we're proud of the tremendous progress we've made."

To catch up, Clinton has focused on raising the state's education standards in the

hope of attracting business with a well-trained work force. But that investment is not likely to show any payoff until the middle of the decade, say Clinton supporters.

Clinton's record with state labor organizations is mixed. Despite Becker's criticism, some unions are backing his Presidential bid. But to critics, Clinton showed his true colors when he sided with management in a bitter strike at Morrilton Plastics

Critics say Clinton showed his true colors when he backed management in the bitter strike at Morrilton Plastics

Inc. When the company faced tough negotiations with the United Auto Workers in 1990, the state issued a \$300,000 loan guarantee, helping the company secure a \$1 million bank credit line. That allowed Morrilton to build up inventory and protect contracts with auto makers. The UAW, which eventually struck, is suing the state and Morrilton—now in Chapter 11—for interfering with collective bargaining.

"When it comes to business vs. labor, you won't get a much clearer case than Morrilton to show you he's probusiness," says John R. Brummett, editor of *Arkansas Times* magazine.

Environmentalists also aren't happy with the Clinton record. The League of Conservation Voters, in a recent report faulted Clinton for appointing industry-friendly people to a state pollution control board. Says Ali Webb, LCV associate director: "Clearly Bill Clinton did not put environmental protection as a top priority when he was governor." A senior Clinton aide acknowledges that environmental issues a first did not receive the attention they deserved and that Clinton in recent years has tried to improve his record. On health and safety issues, the Chicago-based National Safe Workplace Institute ranks Arkansas 50th in enforcement of worker-safety regulations and workers' compensation.

So far, Clinton's record in Little Rock has received little attention from rivals in the Presidential race. But if he manages to put his problems behind him, his front-runner status will draw attention to his role as governor. And Democrats, especially the activists who dominate the primaries, may be less than happy with what they see.

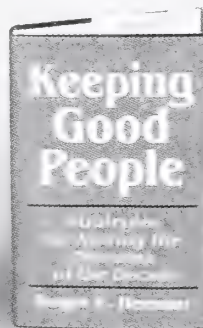
By Paula Dwyer in Little Rock

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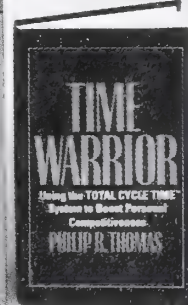
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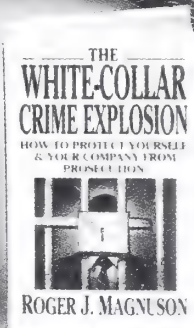
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*Not all Windows programs are alike.
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Does it simplify multi-step tasks, like outlining?

Looks and works like other programs.

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Does the program work well with other programs for Windows?

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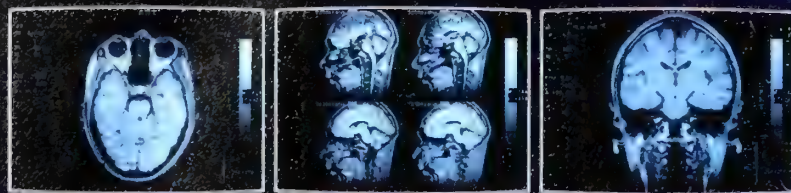
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THE PARTNERS

SURPRISE! FORD AND MAZDA HAVE BUILT A STRONG TEAM. HERE'S HOW

To Yoshihiro Wada, communication is often a matter of playing the percentages. When the president of Mazda Motors Corp. meets with Americans from Ford Motor Co., Mazda's one-quarter owner and frequent joint-venture partner, Wada figures 20% of the meaning is lost between him and his interpreter. Of the remaining 80%, another 20% is lost between the interpreter and the Americans. Left with about a

two-thirds understanding, Wada says, he works extra hard to make sure his message is getting through.

Two-thirds comprehension may hardly seem worth the bother. But not when you consider the potential benefits of international alliances for auto makers today. The price tag for developing a new car can easily reach \$2 billion, a huge incentive for finding the right partner to share the burden. Strategic tie-ins can help companies gain valuable access to new markets or new technologies. They let smaller companies realize big economies of scale when ordering components. And perhaps most important, bigger companies—namely, American ones—can often learn important manufacturing techniques from working side-by-side with a Japanese partner.

Yet while international joint ventures make great sense, often they don't make great profits. After years of arguments, General Motors Corp. is selling its half-ownership in Korea's Daewoo Motor Co. The auto giant must also bail out loss-plagued Isuzu, in which it owns a 37.5% stake, at a time when GM has no cash to spare (page 107). The list of cross-cultural disappointments goes on: Chrysler-Mitsubishi, Chrysler-Maserati, and Fiat-Nissan, have all produced at least as much rancor as rewards. With U.S.-Japan ties frayed, especially over auto trade, links between American and Japanese carmakers are under extra strain.

STANDING STRONG. Ford-Mazda is the exception. Their 13-year marriage has weathered disagreements over specific projects, trade disputes between Japan and the U.S., and even allegations by the Big Three last year that Mazda and other Japanese auto makers were dumping minivans in the U.S. The alliance, founded when Ford stepped in to rescue the struggling Japanese carmaker in 1979, stands

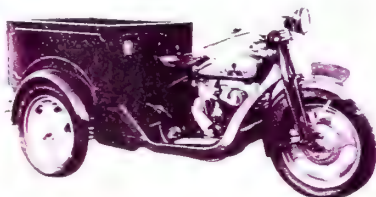


FORD'S EXPLORER

FORD IN JAPAN, MAZDA IN AMERICA

1925

Ford forms a subsidiary in Japan. Assembly begins in a waterfront warehouse in Yokohama



1931

Japanese machine-tool maker Toyo Kogyo, 11-year-old predecessor to Mazda Motors Corp., begins producing three-wheeled trucks



1967

Mazda introduces the rotary engine. It is later unmasked as a gas-guzzler and sales nose-dive. Ford rescues the floundering carmaker by acquiring 25% of it in 1979



1986

Ford opens plant in Hermosillo, Mexico, model after Mazda's Hofu (Japan) factory. It assembles the Mercury Tracer, soon recognized as Ford's best-built car



ing. The two cooperate on new vehicles and exchange valuable expertise—Ford in international marketing and finance, Mazda in manufacturing and product development. When you compare this relationship to others, it stands out as all the possible measures of success,” says Kathryn Rudie Harrigan, professor of strategic management at Columbia University’s school of business. “They really are getting down and doing things in the marketplace.”

For Ford, the payoff has come partly in the form of sales. Ford is now the best-selling foreign nameplate in Japan, with more than 72,000 cars and trucks a year sold through the dealer network it jointly owns with Mazda. But the alliance is also teaching Ford some practical lessons that it’s applying everywhere in its business. When Ford built its plant in Hermosillo, Mexico, seven years ago, it used Mazda’s superefficient Fuji (Japan) factory as a blueprint. The Hermosillo plant quickly became one of Ford’s top-ranking plants for quality and a model for renovating other facilities.

Ford and Mazda have worked jointly on 10 current auto models, usually with Ford doing most of the styling and Mazda making key engineering contributions. For Ford, these cars include the vastly improved Ford Escort and Mercury Tracer models, the subcompact Festiva, the sporty Ford Probe and Mercury Capri, and the off-road Explorer. The Ford-aided Mazdas are the MX-6, 323, Protege, and Navajo.

ODDS. In all, one of every four Ford cars sold in the U.S. last year benefited from some degree of Mazda involvement—everything from manufacturing methods to steering design—while two of every five Mazdas had some Ford influence. Next year, in a first, Ford will begin supplying Mazda with a U.S.-built pickup for sale in the U.S. It will replace Mazda’s imported B-series trucks.

Now, Ford is using its relationship with Mazda as the pattern for joint ventures around the world. Already, it’s applying lessons from the Mazda link to budding relations

ships with Volkswagen and Nissan Motor Co. Starting with Autolatina, a 1986 Ford-vw joint venture in Brazil and Argentina, the U.S. and German carmakers have expanded their ties to include a minivan plant in Portugal. With Nissan, Ford will launch a minivan in the U.S. this fall and an off-road vehicle in Europe a year later. Both alliances are being modeled after Ford-Mazda, with senior managers overseeing relations as well as specific projects.

Translating the success of Ford-Mazda in the U.S. and Asia to other countries will be tough, though. For instance, Ford of Europe Inc. is running into major snags as it negotiates to supply Mazda with small cars for sale on the Continent. The deal would guarantee Ford extra sales for a new car line while giving Mazda access to a key market where quotas limit Japanese imports.

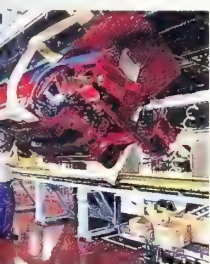
But the talks are bogged down and behind schedule as Ford’s European managers grapple with the same doubts about aiding a competitor that bedeviled early attempts at Ford-Mazda cooperation. “The concern is always there that one party will benefit unfairly from what you’re about to do,” says David R. Gunderson, a former Ford of Europe marketing research director who now serves as a Mazda board member and liaison between the two companies.

Ford and Mazda can call on some hard-learned principles for managing a successful strategic alliance (table, page 104), many of which would apply to ties in any industry. Underlying them all is the idea that benign neglect is no basis for a partnership. Says Ford President Philip E. Benton Jr.: “There’s a lot of hard work in making it work.” To help



**MAZDA'S
NAVAJO**

7
Ford begins building Mazda MX-6 and the Probe sport coupes at plant in Flat Rock, Mich. It is the only Japanese plant in the U.S. to operate with the United Workers



1989

Ford and Mazda buy Autorama, a chain of import-car dealerships in Japan

1990

Ford launches a new Escort, engineered primarily by Mazda and built by Ford in the U.S. Later, Mazda begins selling the Navajo off-road vehicle, built by Ford



1992

With 75% domestic content, the new MX-6 and Probe will be the first 'domestic' cars built by a Japanese plant in the U.S. Mazda is to begin production this winter

smooth future deals, Ford and Mazda have even developed a set of Basic Business Principles. These tenets outline how to price a deal and how to share development costs, for example. Says an admiring Richard D. Recchia, executive vice-president of Mitsubishi Motor Sales of America Inc.: "I wouldn't be surprised if the Ford-Mazda relationship were a pattern for a lot of others."

MUTUAL BENEFIT. In choosing what to work on jointly, the partners operate on a project-by-project basis, with ideas coming from people throughout both organizations. The main criterion for approving an idea is that it benefits both companies. "It will be fairly obvious whether a new product might benefit from a partner or not," says Benton. If something sounds promising, product-development people from both sides start talking. But management always monitors the talks to make sure neither side violates the principle of remaining independent. "They don't want to be part of Ford, and we don't want to be part of Mazda," Benton explains.

The Navajo project is indicative of how the relationship works. Back in the spring of 1987, Mazda, which didn't have a sport-utility vehicle of its own, decided it wanted to buy from Ford a modified version of its upcoming Explorer off-road vehicle. Ford was glad to oblige, partly because it was a chance to prove it could be trusted to manufacture Mazda's pickups in 1993.

This was a role reversal for Mazda. "For the first time, we were the purchaser, making requests to the manufacturer in terms of quality and so on," says Takuma Marukawa, head of joint product planning and development for the Navajo. He says it took some getting used to, but because they had already worked together on several Fords based on Mazda engineering, "both sides know well that there are differences between our systems."

With the first new

Explorer set to roll off the production line in February, 1990, the design was mostly complete. In March, 1989, a team of engineers from Mazda gathered to evaluate the first Navajo prototype at the Ford plant near Louisville. The comments were brutal. The Japanese festooned the car with 400 triangular stickers, color-coded to indicate problems in everything from fit and finish to design, with criticisms scribbled on them. After two days, there were so many stickers "you could hardly see the paint," recalls Phong T. Vu, head of the Ford team.

Ford liked many of the changes, though it nixed a good percentage, such as Mazda's demands for flashier bumpers. Decisions usually came down to money. Making changes to the production line for no more than 18,000 Navajos—vs. the 200,000 Explorers Ford planned to build each year—would add too much to the cost. Although the Explorer comes as either a sporty two-door or a more practical four-door, the Navajo is only a two-door. Most of the other differences between the two are cosmetic: headlights, wheels, and upholstery.

But in a few cases, the Ford team used Mazda's requests to push for changes the Explorer that they had wanted but had been denied by their higher-ups. At one point, the Ford team even videotaped Mazda engineers walking around a prototype, pointing out problems such as its sluggish steering, to replay truck operations managers back in Dearborn, Mich. As a result, the steering was improved on both the Explorer and the Navajo.

JUST KIDDING. Communication between the two groups could be hard at times but they did their best to lighten the mood. There was a lot of arm-flailing and miming to get messages across. At one Saturday, as the Mazda group worked in the Louisville plant, the lights suddenly went out and the doors and windows slammed shut. They thought they were locked in for the weekend—until they were introduced to the American tradition of April Fool's Day.

On Aug. 6, 1990, two years of fine-tuning later, the first Navajo came off the line. The Navajo won *Motor Trend* magazine's 1991 "Truck of the Year"

award, but it hasn't been an unqualified success. First-year sales hit only 11,400 Navajos, well short of the 18,000 goal. Clark J. Vitulli, senior vice-president and general manager of Mazda Motors America, blames the slump in the two-door off-road segment. Partly, though, some Mazda marketers complain that even with Mazda's input the vehicle was basically designed to appeal to domestic-city buyers, not the import buyers who shop for Mazdas. Mazda is keeping that in mind while designing the pickup Ford is to manufacture. The Mazda version will have a totally different exterior, for instance, and the suspension may be tuned differently than the Ford.

If the Ford-Mazda partnership eventually blossomed into a happy marriage, it began as an on-again-off-again relationship.



MAZDA PRESIDENT WADA



FORD PRESIDENT BENTON

SECRETS TO THEIR SUCCESS

- 1 Keep top management involved:** The boss must set a tone for the relationship. Otherwise middle managers will resist ceding partial control of a project to a partner
- 2 Meet often, and often informally:** Meetings should be at all levels and should include time for socializing. Trust can't be built solely around a boardroom table
- 3 Use a matchmaker:** A third party can mediate disputes, suggest new ways of approaching the partner, and offer an independent sounding board
- 4 Maintain your independence:** Independence helps both parties hone the areas of expertise that made them desirable partners in the first place
- 5 Allow no 'sacrifice' deals:** Every project must be viable for each partner. It is up to senior management to see that an overall balance is maintained
- 6 Appoint a monitor:** Someone must take primary responsibility for monitoring all aspects of the alliance
- 7 Anticipate cultural differences:** They may be corporate, or national. Stay flexible, and try to place culturally sensitive executives in key posts

DATA BW



WORKING FORD TIRES: ITS AUTORAMA DEALERSHIP SETUP WITH MAZDA HELPED MAKE FORD THE BEST-SELLING FOREIGN NAMEPLATE IN JAPAN

Ford started buying Mazda trucks for sale in Asia in 1971. That same year, Henry Ford II approached Mazda, then known as Toyo Kogyo Co., about buying a stake in the company. He was refused. But when the oil crisis of 1973 unmasked Mazda's rotary engines as gas guzzlers, decimating sales, Mazda desperately needed a helping hand. In 1977, Mazda's lead lender, Sumitomo Bank, put Managing Director Sotoo Tatsumi in charge of getting Ford's help. He flew to Michigan for a meeting with Philip Caldwell, then Ford's vice-chairman, and Donald E. Petersen, then vice-president and head of international business. They said Ford wasn't interested. But their one-hour meeting stretched all day as Tatsumi pressed his case for the advantages of a tie-up and the Ford executives canceled their appointments to listen.

By 1979, months after the fall of the Shah of Iran and the second oil crisis, Ford saw the allure of the small-car maker and bought a 25% stake, worth about \$30 million. To help pay for it, Ford swapped land in Yokohama, Japan, where it had built an assembly plant in 1925. Protectionist laws passed in 1936 had effectively closed the plant, and Tokyo had never allowed Ford to

reopen its operations in Japan. In addition to dividends on its 25% stake, which totaled \$14.3 million last year, Ford gets to name three outside directors to Mazda's board, while a fourth Ford employee is transferred to Mazda to become a Mazda employee and a high-ranking inside director. Ford's share in Mazda is now worth around \$1 billion.

FIERCE SQUABBLES. In its early years, the alliance didn't exactly run with the famous Mazda hummmm. Often, national and corporate cultural differences stood in the partners' path. Even the way that each side gave presentations was a matter of dispute. The Americans chafed at the Japanese style of presenting conclusions only after lengthy explanations of

how they arrived at their decisions.

At times, too, the competitive squabbles were fierce. Ford coveted Mazda's rotary engine for use in a sports car, but Mazda wouldn't share the design. On another occasion, Ford refused to let Mazda copy an innovative window design for one of its own models. Senior executives on both sides had to prod nay-saying middle managers, who didn't want to open new car and truck projects to scrutiny by a competitor. Sumitomo Bank often had to step in and mediate. After more than a decade, though, most of the spats and misunderstandings are behind them. "They don't need us so much anymore," says Sumitomo's Tatsumi, now chairman of the bank.

Nevertheless, competition between the two is inevitable. Ford is a mass-marketer of cars, while Mazda is a niche-marketer. Wisely, each keeps certain products off-limits to the other. Mazda dearly wanted a four-door Navajo, but Ford refused: The four-door was to be its first real challenger to Jeep's Cherokee, and Ford wanted it as an exclusive. Conversely, says Mazda Vice-Chairman Norimasa Furuta: "Some models, like the Miata, we keep to ourselves."

Still, Ford and Mazda have

HOW THE PARTNERS STACK UP

FORD YEAR ENDING DEC. 31, 1991		MAZDA YEAR ENDING MAR. 31, 1991	
\$88.8 BILLION EST.		REVENUES	
\$15.8 BILLION		\$2.1 BILLION EST.	
NET INCOME OR LOSS		\$189 MILLION	
5.4 MILLION CARS AND TRUCKS		WORLDWIDE UNIT SALES	
1.4 MILLION CARS AND TRUCKS		72,785 CARS AND TRUCKS	
UNIT SALES IN JAPAN		UNIT SALES IN THE U.S.	
343,612 CARS AND TRUCKS*		72,785 CARS AND TRUCKS	

DATA: COMPANY REPORTS, WERTHEIM SCHROEDER & CO

*IN YEAR ENDING DEC. 31, 1991

taught each other plenty. Ford used to hire outside specialty shops to build prototypes of new models. But Mazda saw prototypes as a step toward manufacturing—proof that a car could meet quality standards and be built efficiently. So when Ford and Mazda built the new Escort back in 1989, all prototypes used genuine suppliers' parts and were assembled by Ford workers on lines set up to replicate the final assembly line. Applying that lesson, Ford built prototypes of its new 1992 Taurus and Sable sedans on the same assembly line alongside the old models.

Ford found the whole Escort program especially eye-opening when it came to supplier relations. Ford thought it was tough with its suppliers but realized it had been tough only on price, whereas Mazda is demanding on quality and delivery dates but sometimes bends on prices. The Escort program also reminded Ford of the benefits of working with fewer vendors. Ford has adopted a similar tack in North America, where it will cut its 1,200 suppliers by 300 by 1995.

BRIGHT IDEAS. After seeing how Mazda benefits from the many small ideas produced by its workers, Ford overhauled the cumbersome suggestion program at its Escort-building Wayne (Mich.) plant. Now, ideas are written up by the team member with the best proposal-writing skills or by a supervisor. At its Hermosillo plant, Ford followed Mazda practice and built a nearby stamping plant. In Ford's previous system, centralized stamping plants turned out hundreds of thousands of door panels, say, which were then shipped to several assembly plants. But the panels were often damaged in transit. The Mercury Tracer made in Hermosillo quickly became recognized as Ford's best-built car.

The revelations have flowed in the other direction, too. Ford gave Mazda access to some sophisticated computer programs for measuring noise and vibration, as well as electronic systems that help control engine emissions. Mazda hopes to profit from Ford's marketing knowhow, too. Working together on the Navajo/Explorer, Mazda got a close look at the customer surveys Ford had collected on the old Bronco II, the Explor-

er's predecessor. Ford had used the surveys to show engineers which components or vehicle systems, such as heating and air conditioning, customers felt strongest about. Mazda came away so impressed that last year it adopted the Ford system wholesale, even retaining the same Detroit-based research firm to compile the data.

At other times, the partners have given each other a helping hand of the most practical sort. When a stamping press at Mazda's Flat Rock (Mich.) plant broke down two years ago, Mazda called over

Shigeo Kasuga, the man they call "MSG," as in senior management strategy group. Kasuga, a director with primary responsibility for the Ford alliance, earned his nickname at a meeting of the group in Florida four years ago. When a fire alarm interrupted the session at 2 in the morning, he was the only one of the executives who remembered to bring the meeting's documents out of the building to safety.

PARTY TIME. The partners hold a three-day MSG meeting once every eight months. It includes the top three executives from Ford and Mazda, plus some half-dozen other operating heads. The first two days are all business, but the third is always reserved for getting to know each other informally. Although Mazda executives have been disappointed by how few top Ford executives like to play golf, both groups seem to have a taste for California wines: At the party closing each day's session last time, the managers toasted each other with Chateau Montelena Chardonnay and Stag's Leap Cabernet Sauvignon.

The MSG meetings are part of a yearlong parade of meetings and get-togethers. Four months after each MSG meeting, Ford Chairman Harold A. "Red" Pottinger, Mazda Chairman Kenji Yamamoto, and their two closest lieutenants meet to discuss industry and economic trends and broad strategies for cooperation. Twice a year, the heads of product planning and development meet, as do the production and production engineering vice-presidents. In between, there are hundreds of joint product-planning sessions. The jointly owned

Autorama dealer network in Japan was conceived at one of the MSG meetings. But other successful project ideas have perked up from below. Kasuga estimates that only five ideas survive from every 1,000 suggestions, but that's fine with him. "The experience of failure is an important lesson to us," he says.

Sometimes they agree to disagree. Ford and Mazda negotiated over a minivan for three years in the 1980s. Both wanted a new model with the engine up front, instead of under or between the seats. But Ford wanted a front-wheel-drive model, and Mazda insisted on rear-



SHARE AND SHARE ALIKE: FORD BUILDS MAZDA'S NAVAJO OFF-ROADER IN LOUISVILLE, WHILE MAZDA MAKES FORD'S TELSTAR IN HIROSHIMA



to Ford's nearby plant in Woodhaven and asked to use its stamping press. No problem, said Ford. Mazda was able to keep the Flat Rock line moving. On other occasions, when local assembly plants ran low on small bolts or other parts, they have borrowed emergency truckloads from each other.

What's the secret? "The most important point is for people to meet face-to-face and freely talk," explains President Wada. Much of the credit for keeping everyone talking belongs to the four men who monitor the alliance, W. Wayne Booker, Gunderson, Wada, and

cel drive. Finally, they simply dropped it. While Mazda developed its, Ford negotiated a joint project with Nissan. Going on sale this fall as the Mercury Villager and Nissan Quest, the minivan was engineered and developed by Nissan. Engines and body panels produced at Nissan's plant in Smyrna, Tenn., will be used to assemble the vehicles at a renovated Ford plant in Ohio.

Ford and Mazda may have hit an impasse over their plans for Europe, too. The two were supposed to have signed a deal by the end of 1991, but it has now been put off until midyear or later. If the agreement slips beyond that, the joint project could be in jeopardy, because there would be little time to develop the expected model—based on a revised European Escort—for the planned 1995 unveiling.

At first, Mazda officials wanted a unique car based on one of their models, but Ford finally convinced them that European volumes wouldn't justify it. And the two partners have recently been bickering over the cost of the project. More ominously, some Ford officials are questioning the very notion of working with partners with Mazda in Europe. "There may be a spillover benefit in future products," says one Ford executive. "But there is a downside: We are assisting a competitor to get into a market in which we have more depth than they would on their own."

TENED BLOW. To the senior people within the Ford-Mazda partnership, that kind of talk is painfully narrow-minded. "Dealing with friction between Japan and the West is all part of making the alliance work. A perfect example is the minivan 'dumping' controversy. The Mazda MPV was one of the vans the Big Three recently charged were being dumped in the U.S. at prices below cost. A preliminary ruling on Dec. 20, the Commerce Dept. found that MPVs were being dumped, but only at 7% below cost, far less than the maximum 30% the U.S. industry had alleged.

The process has been a strain on Ford-Mazda ties, to say the least. Benton tried to ease things by delivering a letter to Mazda's then-President Norimasa Fuda informing Mazda of the impending antidumping petition one day before it was filed in Washington. That, and the fact that the filing was seen as an industry-wide political move, softened the blow of Ford's participation. But it was still a blow. "If I said we weren't disappointed, that would be a lie," says current President Wada. "But we understand." A marriage counselor couldn't have said it any better.

By James B. Treece in Detroit and Karen Lowry Miller in Tokyo, with Richard A. Jecher in London

GM AND ISUZU: A WASTE OF SYNERGY

It was the final question of a long December press conference: Would General Motors Corp. be plowing any more money into troubled Japanese carmaker Isuzu Motors Ltd., of which it already owns 37.5%? GM Chairman Robert C. Stempel handed the question off to Vice-Chairman John F. Smith Jr., but not before mispronouncing the name "eye-zoo-zoo." Smith, head of international operations, curtly explained that GM planned no capital investment in the company, which he wrongly called "eh-zoo-soo." The correct pronunciation: "eee-soo-zoo."

The scene speaks volumes about GM's 21-year relationship with Isuzu. Isuzu supplies engines and vehicles for the GM and Opel badges. But unlike Ford and Mazda, which jointly develop and produce cars, GM and Isuzu have each largely hugged their own side of the road. Insiders concede that potential synergies have gone to waste. GM passenger chassis could be powered by state-of-the-art Isuzu engines, they note. And GM could aid Isuzu's lackluster passenger-car sales with its worldwide marketing strength. But all too often, the partners duplicate resources rather than make them mesh. Neither company's management has shown a real commitment to working together.

NASTY SHOCK. The partnership's troubles were never more obvious than on Christmas Day, when the No. 6 Japanese vehicle maker posted a \$381 million pretax loss on sales of \$9.02 billion for the year. Despite its hefty stake, GM was blind-sided by Isuzu's woes. "We found ourselves not very knowledgeable about the problems and how Isuzu got into them," admits Thomas S. McDaniel, GM's vice-president for Asian and Pacific operations.

Now, McDaniel is dispatching Donald T. Sullivan, 48, to take day-to-day line authority over corporate planning,

manufacturing, and engineering—a highly unusual post for an American to hold at a Japanese company. Strategic planning director of the Chevrolet-Pontiac-GM of Canada Group since 1989, Sullivan has worked with Isuzu in many positions, dating back to a spell at Chevy in the late 1970s importing Isuzu-built Opels. He replaced Kazuhira Seki as vice-president in late January, when Seki became president. Another GM man, Philip F. Murtaugh, will oversee product planning. Both will join the Isuzu payroll.

GM promises to pay better attention to its partner. For starters, it plans to buy more from Isuzu. GM now purchases more than 20% of Isuzu's output, depending on it for the light, medium, and heavy trucks it markets outside of North America plus 90,000 U.S.-bound Geo Storm subcompacts and 500,000 transmissions. It's doubling the number of diesel engines it buys for Opel, to more than 80,000 per year. But it still has no plans to share the development costs, says McDaniel.

SLOWPOKES. Isuzu, known as a leading truckmaker with superior diesel engines, admits it mismanaged itself into the red. Indecision during a late-1980s' truck boom left it in the dust when competitors quickly expanded production capacity and cranked out

products. Just as Isuzu's conservative managers finally tripled capital investment, the market skidded. And it still maintains a money-losing passenger line accounting for only 15% of sales.

Now, Isuzu executives have got Sullivan to help—and they seem upbeat about it. Still, this relationship has a long way to go: GM offered to send Sullivan to a six-month total-immersion course in Japanese, but Seki nixed it, saying Sullivan would only learn enough to get into trouble.

By Karen Lowry Miller in Tokyo, with James B. Treece in Detroit

A NOT-SO-HAPPY MARRIAGE

1971 General Motors buys 34.2% of Isuzu's shares. Six months later, Isuzu ships its first vehicles to GM—the Chevy Luv truck

1976 The GM-Isuzu alliance's first passenger car, marketed as Buick Opel by Isuzu, arrives in the U.S.

1982 To finance an Isuzu plant expansion that is to supply GM with 220,000 passenger cars, GM buys Isuzu convertible bond issue worth \$200 million

1985 The strategy fizzles when Japan expands voluntary export quotas but still limits Isuzu to 120,000 cars for the U.S. market

1992 After Isuzu posts pretax loss of \$381 million for fiscal 1991, a startled GM sends strategic planning director Donald Sullivan to oversee the alliance

DATA BW

THERE'S MORE THAN BEER IN MOLSON'S MUG

Its chemicals and do-it-yourself chain may soon outearn the suds

Not surprisingly, one of the first questions that Marshall A. "Mickey" Cohen was asked after being named head of Molson Cos. in late 1988 was whether he drank beer. Surprisingly, he admitted he preferred wine. An oenophile running the brewer with 52% of the Canadian market and the No. 2 imported beer in the U.S.? It didn't seem right.

In fairness, Cohen, 56, does sip one of Molson's 47 brands every now and then.

Molson a standout among North American brewers, which generally haven't had much success in their ventures beyond beer. So far, investors like what they see. Molson shares are up 76%, to \$33.75 Canadian, since Cohen's arrival (chart). Over the same period, the broad-based Toronto Stock Exchange 300 index has risen only 7%.

But Cohen's work is far from over. He needs to improve the long-anemic earnings of the nonbeer units, and he must

market. He says he'll do that by undercutting domestic producers on price, though with all imports just 3% of the market now, Stroh's is aiming high.

To fight back, Molson is pursuing risky strategy. Because there is little price competition in the Canadian beer market, brewers have tried to gain share by spending heavily to promote their image. Now, Cohen wants to cut his marketing budget to meet American prices. Skimping on marketing in the midst of an invasion by U.S. companies may seem foolish, but Cohen is counting on Canadian drinkers to remain loyal. Trimming the marketing budget "is not the reaction I would have to the threat of U.S. imports," says William A. Saup, Miller Brewing Co.'s vice-president in charge of international business. Retort Cohen: "It will be a long time before the big Canadian brands are threatened."

Meanwhile, Cohen will continue to plug away at the \$2.5 billion U.S. import

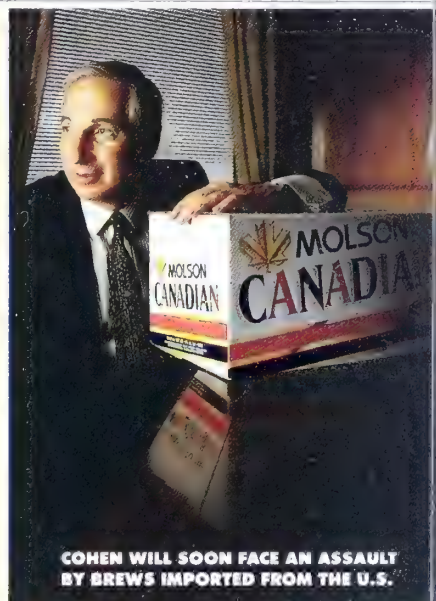
THE MIX THAT GIVES MOLSON... ...AN EFFERVESCENT STOCK

	Est. 1992 revenues* Millions of U.S. dollars	Percent of total
SPECIALTY CHEMICALS Cleaning and sanitizing products marketed through Diversey Corp.	\$1,100	43%
BEER Molson beers and foreign brands, such as Foster's and Miller brewed under license	\$1,060	42%
RETAIL Beaver Lumber Co., Canada's only national chain of home-improvement centers	\$340	13%
SPORTS Montreal Canadiens hockey team, winner of 23 Stanley Cup championships	\$55	2%

*FISCAL YEAR ENDING MAR. 31



DATA: COMPANY REPORTS, BW ESTIMATES



COHEN WILL SOON FACE AN ASSAULT BY BREWS IMPORTED FROM THE U.S.

But his taste for wine was a tip-off that things were about to change. In an effort to revitalize one of Canada's chronic underperformers, Cohen has revamped all of Molson's operations. All, that is, except the Montreal Canadiens hockey team, which hardly needs fixing with a record 23 Stanley Cups to its credit.

SHARES SOAR. By forming a joint venture with rival Carling O'Keefe, whose brands include Carling Black Label, Cohen has transformed Molson from a sluggish No. 2 into Canada's dominant brewer. And with beer consumption essentially flat, he's placing more emphasis on Molson's two key diversifications: specialty chemicals for cleaning and sanitizing, and a retail home-improvement chain. If his push pays off, it could make

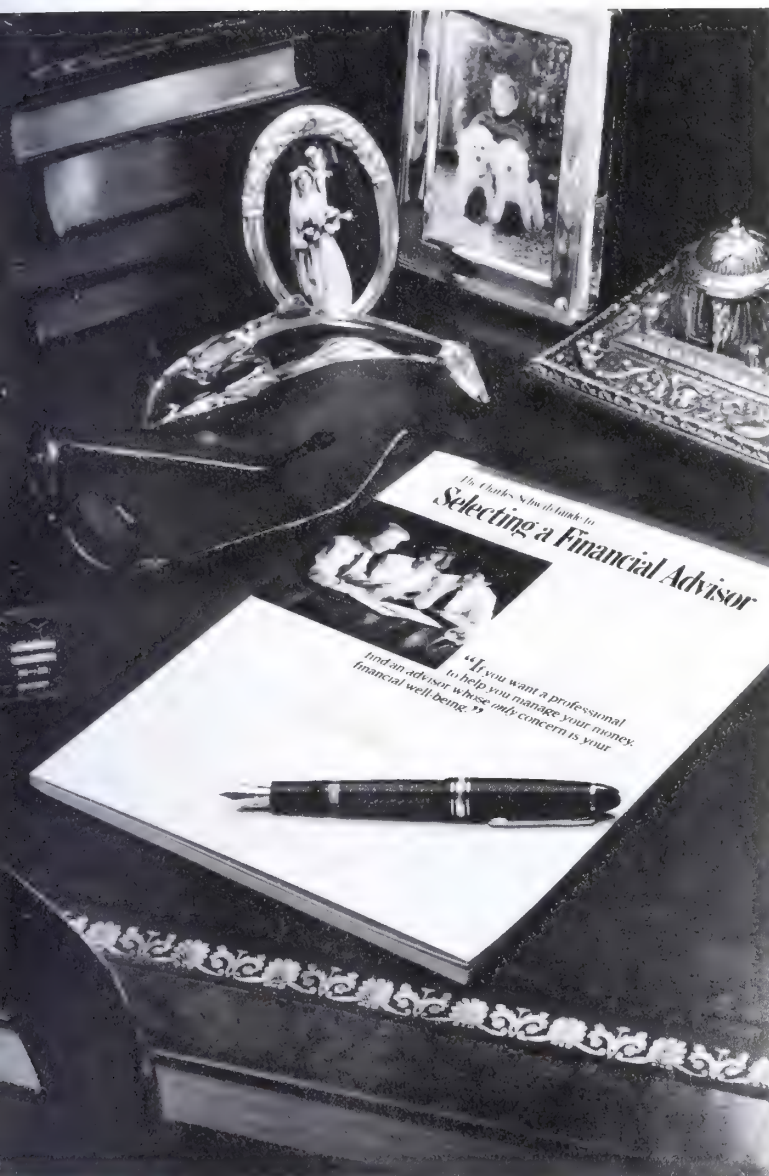
defend Molson Breweries against a coming assault by U.S. beermakers. Last fall, a General Agreement on Tariffs & Trade panel ruled that Canada was unfairly excluding U.S. beer imports. Canada has until late March to propose a plan to open its market, or face stiff U.S. import duties on its brews.

Cohen insists he isn't afraid of the Big Three American beermakers: Anheuser-Busch, Miller, and Coors are already represented through licensing deals in Canada. These relationships are not expected to change once the market opens up. But smaller American brewers could give Cohen fits. Jovan Jovanovski, marketing director of Detroit-based Stroh Brewery Co., vows his brand will grab 12% to 15% of the \$7.7 billion Canadian

market. Molson surpassed Corona as the No. 2 import in 1990, but it still lags behind Heineken-Amstel, 20% to 30%. With consumption relatively flat and imported beer losing ground in the U.S., "further gains won't come easily," warns Benj Steinman, executive editor of *Beer Marketer's Insights*.

ENDING A STALEMATE. To expand beyond North America, Cohen would like to buy up to 40% of Foster's Brewing Group Ltd. of Australia. The parent of Carling O'Keefe, Molson's joint-venture partner, Foster's is the world's No. 4 brewer and may need equity partners after disastrous results in its nonbeer businesses. But the competition is very keen. "Almost every brewer is going to have a good look at Foster's," says Justin H.

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The Corporation

ford, an analyst with Potter Warburg.

A former Canadian deputy finance minister, Cohen knows his way around the bargaining table. Molson had been talking to Carling and Foster's about a joint venture for months before his arrival from Olympia & York. But negotiations had stumbled over who would control a merged brewery. Cohen quickly broke the stalemate by offering Foster's a 50% stake in a new company known as Molson Breweries.

By combining Carling's 20% market share with Molson's 32%, the new company surpassed Labatt, now No. 2 with 42%. After closing seven of 16 plants, Molson Breweries is now Canada's lowest-cost brewer—and its most profitable. In fiscal 1991, Molson logged \$137 million in operating profits from beer, triple the level of just four years ago. But a \$134 million write-down on a 1989 investment in the parent company of Foster's pulled Molson into the red in fiscal 1991. The net loss was \$33 million, while sales were flat at \$2.2 billion.

To get more out of his chemical business, Cohen brought in Derek Cornthwaite, a hard-charging 25-year veteran of British giant Imperial Chemical Industries PLC. Cornthwaite stunned ana-

lysts in early 1991 by telling them he intended to turn Molson into a chemical company. That's not as absurd as it may sound. Diversey Corp., Molson's specialty-chemicals business, is a big player in the \$7 billion cleaning and sanitizing industry. Now operating in 35 countries, it is positioned to grow rapidly as less-developed countries improve the sanitation of the food processors, restaurants, and

**Consolidating plants
has made Molson Canada's
lowest-cost—and
most profitable—brewer**

other operations served by Diversey.

Last April, Diversey completed its largest-ever merger: a \$243 million purchase of DuBois Chemicals Inc. The deal should help boost Diversey's sales almost 50% this year, to \$1.1 billion. DuBois makes Diversey the No. 2 player in the critical U.S. cleaning and sanitizing market and gives it a wholly owned Japanese subsidiary as well. Cornthwaite

vows that this position, together with restructuring program, will help raise Diversey's profit margin to 10% from 5%. Earnings on chemicals would then begin to challenge those from beer.

Cohen is also expecting a lot more from Beaver Lumber Ltd., Canada's only national home-improvement retailer. Jack Edwards, a 30-year veteran of the more competitive U.S. market, was shocked at how out-of-date Beaver was when he took charge in late 1989. Beaver's 185 stores had little central direction. "Every store was doing its own thing," he recalls. Now, Edwards is improving controls. And he wants to create Canada's first chain of full-service home-improvement warehouse stores, along the lines of Home Depot Inc. in the U.S. He has even recruited former Home Depot managers in the hopes of repeating that company's success.

By 1994, Cohen wants to double the profit margins of his nonbeer business. If he does, they would account for more than half of Molson's operating profit, up from 24%. To Cohen, that would be more than enough reason to raise the glass—of beer, of course.

By William C. Symonds in Toronto, with bureau reports

NEW AUDI TAKES AIM AT LEXUS AND ACURA.



In order to stand out in the highly competitive American car market, Audi has invested millions of dollars in redesigning and rethinking every automobile in its line-up, starting with the all-new Audi 100 V-6. At a base price of only \$29,900*, it's clear Audi is not content to let Lexus and Acura corner the market. Indeed, Audi believes the new 100 will break from the pack, being the first new automobile in its class to offer German engineering with Japanese pricing. With front-wheel drive, driver's side air bag, and ABS standard on every Audi 100, Japanese car buyers may find the new Audi too good a value to ignore.

—KARL TREUTLER, DETROIT

*Manufacturer's suggested retail price, excluding taxes, license, freight, dealer charges and options. Price subject to change. 100 S shown with \$470 optional metallic paint

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LITTLE,
THEODORE AND
NICHOLAS
FORSTMANN

LOOK WHO'S GOT THE LAST LAUGH NOW

Forstmann Little sat out the LBO frenzy. Now, it's sitting pretty

Just a few years ago, Theodore J. Forstmann's fellow Wall Street dealmen scorned him as an annoying anachronism. In the epic takeover battle fought over RJR Nabisco Inc. in 1988, Forstmann Little & Co. didn't even make a bid, standing on principle, of all things. In the best-selling book *Barbarians at the Gate*, Forstmann came across as a self-righteous blowhard, raging against

the reckless venality of the deal game even as his nemesis, Kohlberg Kravis Roberts & Co., engineered history's largest leveraged buyout. At one point, Forstmann's own banker asked in exasperation: "What are you, a priest?"

Oh, how times have changed. Today, it's evident not only that KKR overpaid but that the RJR deal marked the peak of 1980s deal mania. Teddy Forstmann was

right, and for the right reasons. It's said that virtue is its own reward. On Wall Street, though, there's a financial angel to everything. Having avoided the catastrophic deals that now burden so many high-leverage investors, Forstmann Little boasts unequaled rates of return (table). And while many LBO promoters are virtually moribund for lack of financing, Forstmann Little is constrained only by its own investment discipline.

'PHENOMENAL.' The latest evidence of Forstmann Little's prosperity surfaced on Jan. 29. Just two days after R. J. Macy & Co. (LBO, Class of '86) collapsed into Chapter 11, Forstmann Little announced plans to bring public Gulfstream Aerospace Corp. Two years ago, Forstmann Little joined with Allen Paulson, Gulfstream's founder, to buy the executive-jet maker from Chrysler Corp. If Gulfstream fetches the \$20 per share it is seeking, the Forstmann

up's \$100 million equity investment will have a market value of \$500 million. That's an imputed return of 123% a year. A few weeks earlier, Forstmann Little closed the sale of its FL Industries Inc., a manufacturer of electronic components. Forstmann Little now fully divested 11 of 18 companies it has acquired since the firm was founded in 1978. On \$2.67 billion of capital invested in these 11 completed investments, Forstmann has returned 2% a year, on average, to its debt investors and 4% to its equity investors—or more than double the average equity return claimed by KKR. Forstmann's numbers are clearly phenomenal," says Steven Gaines, publisher of the *Private Equity Analyst* newsletter.

These astronomic averages are likely to decline somewhat as Forstmann Little tests the seven operating companies under its control. The group includes the buyout firm's only real maker, Pullman Co., which manufactures industrial components. With cash flow running 40% below projections, Forstmann decided last fall to defer interest payments on Pullman's \$250 million of subordinated debt. John A. Sprague, the Forstmann partner in close contact with Pullman, predicts that the company will make good on all its debt payments. As for the \$65 million in equity, however, "the prospect of a positive return is remote," Sprague says. Forstmann's institutional investors are taking Pullman's troubles in stride. When you invest in an LBO partnership, you expect two or three deals to be los-

FORSTMANN'S HOLDINGS

GRIMES AEROSPACE

ACQUIRED 1986

\$730 MILLION

PURCHASE PRICE

LEAR SIEGLER

ACQUIRED 1987

\$2,100 MILLION

PURCHASE PRICE

PULLMAN

ACQUIRED 1988

\$670 MILLION

PURCHASE PRICE

GULFSTREAM AEROSPACE

ACQUIRED 1990

\$850 MILLION

PURCHASE PRICE

GENERAL INSTRUMENT

ACQUIRED 1990

\$1,750 MILLION

PURCHASE PRICE

ALDILA

ACQUIRED 1992

\$83 MILLION

PURCHASE PRICE

DATA: FORSTMANN LITTLE & CO

ers and another five to eight to be just O.K.," says John B. Carroll, president of GTE Investment Management Corp., an investor since the early 1980s. "The fact that Pullman is Forstmann's only problem is quite remarkable. Teddy Forstmann has always walked the way he's talked, and in this business that counts for a lot."

GROWTH MODE. Vindication has mellowed Teddy Forstmann a bit. In five hours of interviews with *BUSINESS WEEK*, he did not once disparage Kohlberg Kravis—directly, anyway. "I still don't think that winning is doing the deal no matter what," he says. "Winning is making money for your partners."

Forstmann, 51, now is confronted by the traditional challenge of the flamboyantly successful—what to do for an encore. Forstmann's answer: more LBOs, but of a different sort.

With the exception of Pullman, Forstmann Little thrived by paying reasonable prices for mature businesses with steady cash flow and a dominant position in industries less volatile than the economy as a whole. With such straightforward asset plays scarce today, Forstmann has refocused its designs on companies capable of growing faster than the economy. The buyout firm began tilting toward growth in 1990 with the acquisitions of Gulfstream and General Instrument Corp., the dominant supplier of cable-television electronics.

Forstmann's shift in strategy exposes it to new risks. In acquiring Gulfstream Aerospace, for example, Forstmann accepted greater exposure to the swings

of the economy than it willingly accepted in the past. With the executive-jet market in a recession-induced slump, Gulfstream's revenues fell to \$887 million last year from \$1 billion in 1989. Orders are picking up, though, and the numbers suggest that Gulfstream is a more efficient company than it was under Chrysler Corp. Despite a 9% revenue drop in 1991, Gulfstream posted \$21.3 million in operating earnings, compared with a loss of \$4.3 million in 1990.

Then, too, growth companies expose Forstmann Little to the vagaries of big-time research and development. Gulfstream is developing several new models, including a minisupersonic transport in partnership with a Russian group. General Instrument Corp., meanwhile, is a leader in the race to develop high-definition television. Aldila Inc., which Forstmann just acquired, is a pioneer in graphite golf club technology.

"With these companies, clearly there is more volatility in the numbers than we're used to," acknowledges Nicholas C. Forstmann, Teddy's brother and, with Wm. Brian Little, a co-founder of the buyout firm. "I can't tell you for certain whether the HDTV market is going to do this, that, or the other thing."

Forstmann Little has tried to compensate for the added uncertainty by adjusting its financing approach. For one thing, the firm is leveraging less. The buyouts of Gulfstream and General Instrument were financed with \$7.5 of debt for every \$1 of equity, compared with ratios ranging from 10 to 1 to 20 to 1 in most of its past deals.

In addition, Forstmann enjoys a marked financing-cost advantage over its LBO rivals, thanks to its long-standing junk-bond abstinence. During the 1980s, KKR and most major LBO houses grew heavily dependent on the junk-bond underwritings to supply the subordinated debt crucial to large LBOs. Today, such financing is available only in piddling amounts at usurious interest rates.

Instead of playing the junk-bond

STRIKING IT RICH AT FORSTMANN LITTLE

ALL 11 COMPLETED DEALS		ANNUAL RATE OF RETURN				
		FIVE MOST RECENT COMPLETED DEALS	PURCHASE PRICE MILLIONS	YEAR ACQUIRED	YEAR SOLD	PARTNERSHIP I DEBT + EQUITY
TOTAL CAPITAL INVESTED		TOPPS	\$98	1984	1991	59.2%
\$2,665 MILLION		DR PEPPER	650	1984	1986	35.3
DOLLAR-WEIGHTED AVERAGE ANNUAL RETURN		FL INDUSTRIES	408	1985	1992	20.5
PARTNERSHIP I DEBT + EQUITY	PARTNERSHIP II EQUITY ONLY*	SYBRON	335	1986	1988	69.9
32.2%	86.4%	MOEN	845	1988	1990	29.0
						108.2%
						116.4
						55.6
						269.7
						92.0

*AFTER 20% TAKEN BY FORSTMANN LITTLE AS GENERAL PARTNER

SOURCE: FORSTMANN LITTLE & CO.

game, Forstmann Little in 1983 decided to approach its equity investors, mainly the pension funds of such blue-chip corporations as Boeing, Eastman Kodak, and AT&T. A dozen of them not only agreed to invest \$250 million in a new subordinated-debt partnership controlled by Forstmann Little but accepted a rate of interest well below market levels. In return, these investors were given an option to buy a 37% equity stake in each future buyout. Since 1983, Forstmann has raised four additional debt funds on identical terms.

Today, LBO loans are as scarce as communists in the Kremlin, and Forstmann Little is beginning to make more aggressive use of its financing advantage. With \$2 billion in debt financing locked in at a rate only one percentage point higher than the U.S. government itself pays, the buyout firm famous for shunning junk bonds has decided it no longer necessarily needs banks, either.

In mid-January, Forstmann Little made the first wholly self-financed bid in LBO history, offering about \$600 million for the Cessna Aircraft Co. subsidiary of General Dynamics Corp. On Jan. 16, Teddy Forstmann and a General Dynamics executive shook hands on a deal. However, their preliminary agreement unraveled as Forstmann Little's review of the fine print prompted it to refuse to assume open-ended liability for Cessna's past operations. Enter Textron Inc., which on Jan. 20 announced its acquisition of Cessna for \$600 million.

The financial structure of Forstmann Little's Cessna bid suggests that it can compete with most any corporate acquirer. Except for a small contribution from Cessna executives, all \$600 million would have come from partnerships run by Forstmann Little—\$175 million in equity and \$425 million in debt borrowed at 7.125%. Forget Forstmann's LBO rivals: not even a corporation rated AAA could have borrowed at lower cost.

'QUALITY ASSETS.' To Teddy Forstmann, though, the overriding advantage of self-financing is freedom from burdensome loan covenants and amortization schedules. Under Forstmann Little's agreement with its institutional lenders, the companies it acquires need not begin repaying the LBO debt for 11 years. These days especially, banks are not nearly as patient. Had the buyout firm taken out a bank loan, Cessna would have had to begin principal payments after one year and repay the full sum in five or six years.

Ever the contrarian, Teddy Forstmann sees abundant LBO opportunities even with stock prices at record levels. Growth companies in particular are trading at lofty multiples. As Forstmann

notes, though, generally high stock prices prove little relief to the numerous large corporations struggling to cope with the double whammy of protracted recession and the basic structural changes transforming many U.S. industries. "If I told you the names of the companies that have come through here looking for capital, you'd faint," says Forstmann. "There are quality assets available, believe me."

SCUTTLED DEAL. While LBOs are Forstmann's preference, he is warily open to other investments. Last September, he preliminarily agreed to pay \$350 million for a one-third stake in Whittle Communications, a diversified media company. A month later, though, the deal was off, scuttled by Forstmann's skepticism over Whittle's optimistic growth forecasts.

"Teddy will not get into a deal that anything far from 99.9% risk-free," says Chairman Christopher Whittle. Y. Whittle remains hopeful of working something out: "I will be very surprised if we don't do business together in some way."

When Teddy Forstmann raised his last debt fund a year and a half ago, he told his investors that he would remain with Forstmann Little until all the money invested. After that, who knows? "I'm definitely not going to spend my whole life doing this," says Forstmann, who says he can envision retiring in five years or so. Don't bet on it, though. That's a gamble Forstmann himself would never take.

By Anthony Bianco in New York, with Chuck Hawkins in Atlanta

BANKING

THE FDIC CAN'T BEAR MANY MORE CROSSLANDS

It has too many failures on its hands—and too few bidders

American auto makers aren't the only ones having trouble selling their product. The Federal Deposit Insurance Corp. signaled just how poor the market is for failed banks on Jan. 24, when it rejected two bids for Brooklyn-based Crossland Savings, with \$7.4 billion in assets. Rather than accept what it deemed lowball offers, the FDIC itself took over the thrift.

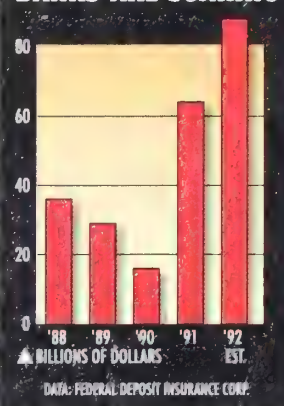
It's a scenario that could prove more common if the economy continues to stagnate and more banks and thrifts teeter on the edge. FDIC auctions are no longer attracting eager bidders, and the most likely buyers, financially solid banks, don't want to take on additional assets when government regulators are stressing the need for stronger capital ratios. In Crossland's case, only Chase Manhattan and Republic National Bank made bids, despite the FDIC's offer to take over the savings bank's bad loans. "We have a supply-demand imbalance," acknowledges Harrison Young, the FDIC's director of resolutions. "We have fewer people making bids, even on smaller banks." On Jan. 10, regu-

lators sold Perpetual Savings Bank of Alexandria, Va., with \$2.6 billion in deposits, for a mere \$7.8 million to Washington's Crestar Bank.

BLUNT MOVE. All of this is ominous for the FDIC, which estimates that more than 200 banks, with total assets approaching \$100 billion, will fail this year (chart). The agency says the Crossland move was necessary to blunt the trend by bidding banks of offering a meager premium for choice deposits at branches. But fewer, and less eager, bidders could still sharply raise the government's eventual bailout costs.

The FDIC's hands also may be tied somewhat by the banking bill Congress passed in late November. The law specifies that regulators must choose the "least costly alternative" in dealing with troubled institutions. Sometimes, as in the case of Crossland, it may prove cheaper over the short term if regulators take over a bank rather than liquidate it or sell it at too cheap a price. The size of the bids for Crossland wasn't disclosed, but the FDIC says it has st-

THE ASSETS OF FAILED BANKS ARE SOARING



side \$1.2 billion to deal with the bank—\$500 million to boost capital and \$800 million to resolve problem loans.

For now, the FDIC can play hardball with bidders, thanks to the \$70 billion Congress injected into the bank insurance fund last year. Crossland, says the FDIC's Young, "ought to cause some people to realize we don't have our backs to the wall. We have plenty of money."

The FDIC's tough talk rests on its ability to work some magic on Crossland,

especially its real estate problems, thereby making it a more attractive acquisition. But bankers say the government is underestimating the task. "It's pure speculation in real estate and interest rates that the FDIC is engaged in," says one New York banker. Then, there is the cost. At \$1 billion a pop, holding on to failed banks could quickly put a major dent in the insurance fund. Ultimately, without eager banks waiting to acquire deposits and assets, the FDIC might have

to delay closing troubled institutions.

While some analysts think the real estate free-fall is over and that banks may have seen the worst, the nation's economy remains stalled. If it doesn't improve soon, Crossland may be just the beginning of a long, tough, and, above all, costly year for the FDIC as it tries to go it alone in cleaning up the debris left by the persistent banking crisis.

By Tim Smart in Washington, with bureau reports



'Since the day I walked in here, for better or worse, I have been a fully independent chairman'

Yet many people say that the former banking lawyer has politicized it by pursuing an agenda of political aggrandizement to enhance his tough-cop image, advance his career, and expand his power base. In several instances, they say, Breeden has taken or shifted positions to curry favor with the White House. Interviews with more than 40 individuals inside and outside the agency—almost all of whom requested anonymity for fear of retribution—suggest that the effect of Breeden's actions at times has been to distort the SEC's decision-making processes and waste its resources. "He's a good self-promoter who wants to be Treasury Secretary," is the verdict of one White House official.

Breeden dismisses notions that he has played politics at the agency. "I can't deny the fact that I worked with the President for many years," says Breeden. But, he adds: "Since the day I walked in the door here, I have been, for better or worse, a fully independent chairman." In response to those who criticize his activities, he responds: "I would hope that people would evaluate whether the SEC has lived up to its traditions, which are among the best in government."

PILING ON? Illustrative of what Breeden's critics see as his desire for the spotlight was his decision, made soon after assuming his post, to set up a special unit to investigate wrongdoing by banks and other financial institutions. Many of the unit's cases, though, were filed after other regulators such as the Federal Deposit Insurance Corp. had already taken well-publicized actions against these institutions. Some SEC insiders complain that the agency's belated me-too charges against such targets as former thrift executive Charles Keating squandered precious investigative resources and were simply headline-grabbing "piling on" of already-prostrate individuals and institutions. Such cases

ENCIES

S BREEDEN TOO AMBITIOUS FOR THE SEC'S GOOD?

the chairman's headstrong, tough-cop approach stirs criticism

Richard C. Breeden is one tough cop. In his two years as chairman of the Securities & Exchange Commission, Breeden has broadened the agency's enforcement agenda and launched a flurry of tough new regulations. The 42-year-old former White House aide has impressed Congress—which has dramatically boosted his budget—and fulfilled some of the hopes of SEC-watchers that he would be able to capitalize on his political connections to usher in an era of renewed glory at the commission. He has won plaudits for

trying to beef up corporate financial disclosures, prosecute penny-stock promoters, and probe the junk bond market. "He's given new muscle to an agency that had been allowed to grow soft and malleable," says one admirer, David B. Martin, a former official in the SEC's Corporation Finance Div.

But there is another, less publicized side to Richard Breeden, one that casts a shadow on his tenure at the SEC. Historically, the SEC has been regarded as one of the most apolitical, fiercely independent regulatory agencies in Washington.

against banks, several of which already have collapsed, show the agency "was looking for an issue where it could bang its drum," says a former enforcement official.

Breeden's enforcement director, William R. McLucas, defends the move, saying the SEC's vigilance has prompted the rest of the industry to sharpen its financial reporting.

In pursuing his tough-cop agenda, SEC insiders say, Breeden sometimes plays by his own rules. In 1987, the SEC's Enforcement Div. charged Coopers & Lybrand accountants David J. Checkosky and Norman A. Aldrich were at fault for not requiring Savin Corp. to write off, rather than capitalize, losses from the unsuccessful development of a new copier. An SEC administrative law judge agreed and barred the men from auditing public companies for five years. The men appealed, and in a confidential vote

last summer three of the agency's other four commissioners voted to overturn the harsh sanction.

DELAY. But that vote was at variance with the hard line Breeden likes the agency to project. **BUSINESS WEEK** has learned that Breeden, who hadn't involved himself in the proceedings, refused to process the other commissioners' decision until after Commissioner Philip Lochner Jr., who had voted to overturn the sanction, resigned as scheduled last June.

While legal, the delay negated Lochner's vote and has left the case in limbo, giving Breeden and Lochner's successor, who awaits Senate confirmation, the opportunity to reverse the decision. "It was an abuse of process," says one person with knowledge of the events. "Letting these guys off would set a precedent Breeden didn't like."

Breeden declines to discuss the matter, but through a spokesman he notes that many cases require months of "painstaking scrutiny and consideration" before a decision can be reached.

Breeden's critics also question the tactics he has used in his aggressive campaigns to expand his agency's power. One example concerns the SEC's contentious, but unsuccessful, battle to wrest authority over stock-index futures from the Commodity Futures Trading Commission. Last spring, when the SEC appeared to have lost the battle, Breeden ceded in lobbyists from five prominent

Wall Street investment houses to enlist their support. According to sources with knowledge of the meeting, all came away believing they had received an implicit message: If they didn't back the SEC, they might have trouble getting timely approval for any new financial products they devised. Breeden denies he applied pressure. "There was no quid pro quo asked then, nor on any other occasion," he says. Though the firms decided not to support the SEC, there has been no fallout from their decision.

Breeden has come under fire for what critics see as his efforts to ingratiate himself with the White House. Several individuals, including House Energy & Commerce Committee Chairman John D. Dingell (D-Mich.), have publicly questioned whether Breeden has recently shifted course, or at least his emphasis, on several key policy issues to promote the Bush Administration agenda during

on credit cards. Stocks of banks with large credit-card portfolios dropped sharply. The SEC study, though, dismissed that idea, attributing the plunge to other factors, including new trading strategies by institutional investors. Former SEC Chief Economist Gregg Jarrell calls the report "a transparent attempt to get the President off the hook. I don't think this was even a serious study." Breeden counters that the study was prepared by the commission staff and that "I didn't change one comma."

To SEC staffers, though, there is little confusion about Breeden's political allegiances. A week after he arrived at the SEC, a portrait of former Democratic Chairman Manuel Cohen was removed from the commission's private conference room at Breeden's direction. To some SEC historians, Cohen represented the intellectual soul of the agency. Shortly afterwards, Breeden mounted

several poster-size photos of his former mentor, George Bush, in his office.

Some of the strongest dissatisfaction with Breeden is inside the commission itself. SEC staffers complain that the chairman's autocratic, and sometimes vindictive, style has eroded the agency's collegial culture, creating deep schisms within the commission. While Breeden insists that under his administration the SEC has conducted more business by consensus than under his

CONTROVERSY DOGS THE SEC CHAIRMAN

FINANCIAL INSTITUTIONS When he took office, Breeden set up a financial fraud unit to target banks and thrifts. The cases were often brought after other regulators had targeted many of the same institutions. Critics say Breeden was seeking headlines and wasting the SEC's limited resources. Breeden defends his priorities

ACCOUNTANTS Despite a vote by SEC commissioners that overturned sanctions against two Coopers & Lybrand accountants, Breeden has delayed enforcing the decision. Critics claim he fears the vote would undermine the tough image he seeks to promote. Breeden declines comment

BROKERAGES Breeden sought support from five Wall Street firms for his bid to regulate financial futures. The firms perceived an implicit threat: Help Breeden or suffer adverse SEC rulings. Breeden denies the charge

STOCK MARKET SEC study blamed 120-point market plunge last Nov. 15 on trading strategies by institutional investors. Most market analysts attribute drop to President Bush's campaign to jawbone banks into lowering interest rates on credit cards. Critics say Breeden was trying to curry favor with the White House by getting Bush off the hook. Breeden says he didn't touch the study, which was prepared by the SEC staff

DATA BW

an election year. Some cases in point: After supporting an SEC initiative that reined in penny stocks, but made it harder for some legitimate companies to raise capital, Breeden suddenly wants to help ease the credit crunch by relaxing disclosure and filing requirements for small business. Although he earlier supported legislation to lengthen the time investors have to sue for securities fraud, he is now backing efforts to control what he considers excessive litigation. To fellow GOP Commissioner Edward H. Fleischman, the moves show Breeden's efforts to reinforce his ties with the Administration. "It seems to me the man is cramming for finals," Fleischman says.

NO CHANGE. Much criticism has focused on the SEC's recent report on the causes of the 120-point stock market plunge on Nov. 15. At the time, most analysts blamed President Bush's effort to jawbone banks into lowering interest rates

predecessors, officials complain that Breeden tends to ignore the views of others and simply imposes his will on the agency. Commissioners say they sometimes find out about staff reports and senior staff appointments by reading about them in the newspapers. "The price you pay for dissent is high," says an SEC insider.

Breeden still has many champions, inside and outside the agency, who say his stewardship on balance has benefited the commission. Even his critics give him credit for increasing the SEC's clout. If Breeden is judged by his many accomplishments, he may achieve his ambitions to play a larger role within the Bush Administration. But if he is judged by the tactics he has allegedly used to further those ambitions, and the number of enemies he has left in his wake, Breeden's political star could lose some of its luster.

By Dean Foust in Washington

BY GENE G. MARCIAL

IT'S ALMOST SPRING —CAN SUITORS BE FAR BEHIND?

Think the stock market is getting a bit pricey? You might want to follow Bob Olstein's investment strategy. He never looks at price-earnings ratios, nor does he talk to management to assess a company's financial health. Instead, he searches for companies whose balance sheets and excess cash flow are so alluring that a rich suitor is bound to appear.

"We buy stocks that sell at a deep discount to our estimate of their private-market value," says Olstein, a senior portfolio manager at Shearson Lehman Brothers. In particular, he looks for undervalued companies whose shares are already being bought by a potential acquirer.

Some 19 companies of 300 that Olstein has bought in the past nine years have ended up in buyout deals, including MCA, NCR, and Rio Grande Industries. "I picked them not because I had inside information—I didn't—but because they were greatly undervalued." Olstein's portfolio has outscored the market over the period, racking up a total return of 423%, vs. 246% for the Standard & Poor's 500-stock index.

Here are some companies that Olstein thinks are starting to smell like takeover targets:

■ **American Fructose**, a major producer of high-fructose corn syrup, trades at \$13 a share, but generates excess cash flow of \$2.50 a share and has cash on hand of \$50 million, vs. long-term debt of \$30 million. Archer-Daniels-Midland, the giant food company, has increased its holding of Fructose's Class A stock to 21.5%. At the same time, Archer has boosted its stake in American Maize-Products, which controls 74% of Fructose's B stock, to 7%. Olstein believes Archer will seek to acquire Fructose through Maize. (Class A holders have one vote per share; B holders get 10 votes per share.)

Olstein expects Archer to cut a deal with American Maize. "Archer wouldn't be investing in both Maize and Fructose unless it had a grand takeover plan," he says.

■ **Cleveland-Cliffs**, the largest independent processor of iron-ore reserves in North America, is near its high of \$40 a share. One reason: Investment pro Julian Robertson has succeeded in

OLSTEIN'S BUYOUT BETS

Stock	1991-92 high	Recent price	Est. value
AMER. FRUCTOSE Large corn processor	25¼	23	40
CLEVELAND-CLIFFS Major mining company	40	39	50
JSB FINANCIAL Bank holding company	197½	17	30
PINELANDS N.J. TV station	20	14	22

DATA: OLSTEIN & ASSOC.

electing 5 of the 12 directors in a recent proxy fight. (His company, Tiger Management, owns 10% of the stock.) Olstein says Robertson is the kind of guy "who wants to realize the full value of his investment, so we expect he will work toward that goal."

■ **JSB Financial**, the holding company for New York's Jamaica Savings Bank, is at 17—below its book value of 23. Olstein says the bank's \$1.6 billion in assets are greatly underleveraged and could be used to hike earnings. He also sees accumulation in JSB's shares.

■ **Pinelands** is the owner and operator of WWOR-TV, a television station in Secaucus, N. J. that was spun off by MCA in December, 1990, when it was acquired by Matsushita Electric. The stock sells at 40% below Olstein's estimate of its value. Noting a pattern of accumulation here, too, Olstein says the stock is "definitely buyout bait."

A HOSPITAL PRO THE PROS TRUST

Hospital-management companies have been ice cold despite the sizzling stock market. Their earnings are down, and several states have uncovered unethical practices by some hospitals, including misdiagnoses, mistreatment of patients, and fraudulent insurance claims. But one company, Universal Health Services, is starting to attract smart-money investors. Thanks to Chairman and CEO Alan Miller's ability to keep the company profitable—and out of trouble—big investors such as Julian Robertson, Lee and Perry Bass, Airlie Group, and Neuberger & Berman have bought in.

Miller has a top-notch record in hospital management. He founded American Medicorp, where he was chairman and CEO until Humana acquired it in a hostile takeover in 1978. Embittered by his defeat, Miller set up Universal in

1979. He controls 50% of the voting shares.

Universal owns and operates 15 acute-care and 13 psychiatric hospitals in 14 states. It has been profitable from the start, but some investors believe it has just begun to make money.

Earnings of \$1.45 a share are expected for 1991, with more than \$2 seen for 1993, up from 1990's 84¢. And if Universal's "secret plan" takes off, earnings this year and next could be much higher. One investor believes Universal will soon be setting up surgery centers—highly profitable day clinics where surgeons could treat patients quickly and less expensively.

Once Universal gets into surgery centers, its stock could attract a higher p-e than those accorded other hospitals—in the 20s, says one investor. Now selling for \$14 a share, Universal trades at a p-e of 10. This pro thinks the stock "could double in a year."

FINGERHUT MAY HAVE THE TOUCH

Macy's Chapter 11 filing may be hogging the headlines, but that doesn't mean all retailers are hurting. Indeed, some of the catalog marketers that cater to low- and middle-income consumers are thriving—despite the recession and rising postal costs. One standout: Fingerhut, whose stock, now at 31, is near its high of 33. The nation's fourth-largest catalog retailer posted record 1991 earnings of \$2.14 a share, vs. 1990's \$1.96.

Money manager Carlene Murphy of Strong/Corneliusson Capital Management thinks the company will earn \$2.50 this year and about \$2.90 next year. But she ventures that her estimates may prove to be low. Why? She expects benefits from Fingerhut's joint venture with Montgomery Ward to start kicking in as early as this year.

Formed in October, 1991, the equally owned entity sells some Ward products and uses its data base of 10 million credit-card customers. Given Fingerhut's merchandising expertise, Murphy figures the new venture will add 10¢ to 15¢ a share to earnings this year, jacking up profits to over \$3 a share. The company sells brand-name and private-label merchandise, including electronics, housewares, and apparel, to a base of more than 13 million customers.

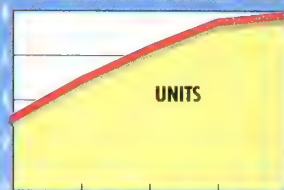
Fingerhut has a p-e of 14. Murphy thinks it should be at least 16, where other catalog houses trade. She sees the stock hitting 50 in a year.

Information Processing

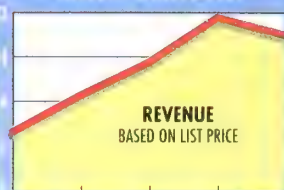


BRITAIN'S
PC WORLD
SUPERSTORE

EUROPE'S PC SALES HAVE PLATEAUED...



...AND REVENUES HAVE SHRUNK



COMPUTERS

EVERYONE LOVES A BARGAIN —EUROPEANS INCLUDED

As PC discounting fever hits, woe to IBM, Compaq, and Apple

For months, skeptics had warned Jan Murray that Europeans wouldn't buy computers from a no-frills discount warehouse. But since opening PC World, Europe's first computer superstore, last November in a South London suburb, Murray has sold to thousands of consumers and a lineup of blue-chip buyers such as Whirlpool Corp. and British Telecommunications PLC. He's saving them about 30% off what they would pay at a conventional computer store for the same brand-name gear. "We're wiping the floors of the High Street shops," Murray crows.

Compared with the bargain-crazed U.S. market, the European business has always been a tame game. But suddenly, discounting is sweeping Europe's PC market with a vengeance. So even though unit shipments still grew in 1991, albeit at an anemic rate, revenues were off by about 10%, estimates Dataquest Inc., a market researcher. And that number, based on list prices, understates the case: Analysts say that a flood of U.S., Asian, and homegrown PC clones flowing through new cut-rate outlets such as superstores and mail-order

houses has cut actual retail prices by as much as 40%.

That's a boon to buyers but a huge headache for IBM, Apple, and Compaq, the three top sellers on the Continent. With slow growth and shrinking margins at home, these and other U.S.-based suppliers had come to rely on Europe for one-third to one-half of their revenues—and an even greater portion of their profits. Compaq Computer Corp. earned almost all of its \$455 million in 1990 profits in Europe. On Jan. 28, it reported a 71% drop in net income for 1991, to \$131 million. Part of that was due to cost-cutting expenses, but a big chunk can be traced to lower margins—both in the U.S. and in Europe, where it gets about 53% of sales. Apple Computer Inc., with 35% of its revenue from Europe, also feels the pinch. "We're not counting on Europe as the cash cow anymore," says Guerino De Luca, head of Apple's European marketing.

Until recently, Europe had been a PC maker's dream. Because European businesses and individuals hadn't scooped up computers as quickly as Americans had in the 1980s, the market was less satu-

rated and customers were willing to pay more—about 30% to 50% more. But now, European PC prices are only about 10% higher than in the U.S.—barely enough to make up for the increased cost of doing business there. Compaq's European gross margin, as a result, dropped from 45% in the fourth quarter of 1990 to just 35% a year later, says analyst Stephen K. Smith of PaineWebber Inc. Apple's European gross margin fell from 52% to 45% in the same period.

FAST FOLD. What happened? Like their U.S. cousins, Europeans have said *basta* to high prices. Many are PC-savvy now and no longer need costly hand-holding from dealers or computer makers, and they're pressing for bigger discounts. Back in November, 1990, 400 buyers surveyed by market researcher International Data Corp. ranked brand, service, and support as the top factors in PC shopping. A year later, low price was No. 1.

That abrupt shift has opened the door to a raft of new dealers and suppliers. In Britain, Europe's most competitive market, more than 100 mail-order houses have sprung up in the past 18 months. Hawking PC clones for 35% below computer-store prices, they have grabbed 14% of the market. No wonder that about 15% of the dealers in Britain and France folded last year. One of the biggest direct-marketing successes has been Dell Computer Corp. of Austin, Tex. In the past six months, it has spread into six new countries, for a total of 13, doubling its European sales, to about \$240 million in 1991 (BW, Jan. 20).

More superstores are on the way. Jan Murray plans to open a second PC World

London by May. Tandy Corp. plans a grand launch for a 20,000-square-foot computer City in Copenhagen. European dealers, as well as U.S. chains such as ComputerLand, Comptel SA, and Businessland, are eyeing superstores in Munich, Paris, and Amsterdam. Meanwhile, it seems that anybody with a bit of capital and some form of distribution is building IBM PC-clones. Last year alone, the number of PC makers in Europe soared by about 300, to more than 1,000. The most successful: Vobis, of Aachen, Germany, a dealer that began assembling its own PCs in 1985. With the backing of Metro, a \$30 million Swiss retailer, it expanded to more than 200 outlets in Germany and other countries. Last year, it sold 100,000 machines, grabbing 15% of the German market and passing IBM.

CUSTOMERS. Another supplier that came seemingly from out of nowhere is Kunnans High Technologies. In 1989, the Japanese company began pumping its PCs through 44 company-owned outlets in France, ringing up \$93 million in sales last year, about 4% of the PCs sold in France. Surprisingly, 60% of its sales came from big companies such as chemical giant Rhône-Poulenc and SNCF, the French railway—the kind of customers that have traditionally stuck with the big brands such as IBM and Compaq. “A lot of traditional dealers and manufacturers think the market is worse than it is,” says Steven Brazier of Inteco Corp., a London market researcher. “They don’t realize they’re [actually] losing market share to the Kunnans and Vobises.”

Indeed, preliminary Inteco figures show that the market’s No. 1 and No. 2, IBM and Compaq, lost two percentage points of market share in Europe last year, dropping to 20% and 9%, respectively. “Even if corporations don’t buy from the Vobises, they now use their own prices to start negotiating,” says Andreas Barth, Compaq senior vice-president for Europe. “Fighting back is our biggest challenge for 1992.”

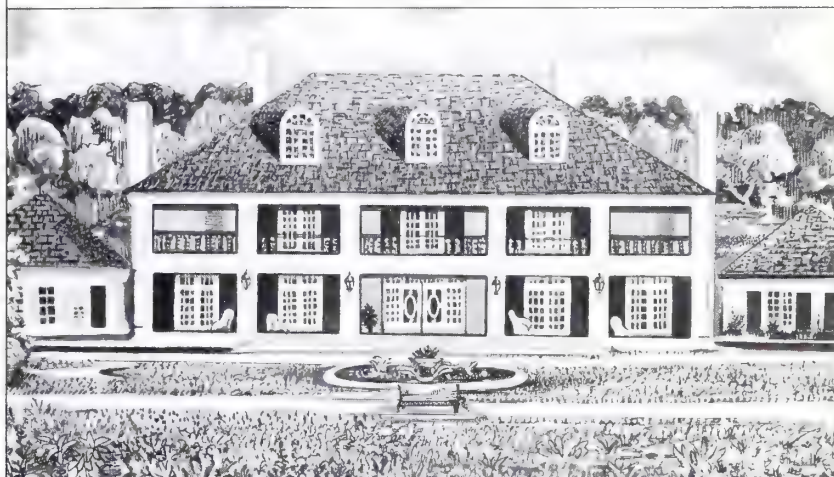
But how? One solution is not to wait until it’s too late. As in the U.S., major suppliers such as IBM and Apple were reluctant at first to undercut loyal dealers by adding discount stores. But when the World opened, IBM, Apple, Zenith, and Compaq were there. “We learned at the time that waiting won’t help,” says William E. McCracken, head of IBM’s European PC unit in Paris.

More recently, Big Blue has even started selling its PS/1 machines through consumer catalogs in France. And Apple is beginning to sell Macintoshes through office-supply and consumer-electronics chains. After all, when it comes to Rome (or Paris or London)...

By Jonathan B. Levine in London

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WHO KNOWS WHERE YOU ARE? THE SATELLITE KNOWS

Soldiers used the system in the gulf. Now, it's going commercial

Michael Morvice wanted his Minute Man Delivery service in Gardena, Calif., to live up to its name. A big obstacle: dispatching the 40-truck fleet efficiently. Dispatchers had to remember each driver's route and were constantly squawking over two-way radios to track their drivers. Now, dispatchers know at all times where each truck is and can alter routes all day long—adding last-minute pickups, for instance. The bottom line: Morvice says he can dispatch a truck in half the time.

The technology that is speeding up Minuté Man, called a global positioning system (GPS), has huge potential in all sorts of businesses, from tracking cargo on ocean-going freighters to guiding jumbo jets. Developed by the Defense Dept. at a cost of \$3 billion over the past 15 years, GPS proved itself in the gulf war when soldiers were able to pinpoint their positions in the trackless desert by consulting boxes the size of paperback books that took readings from satellites.

DRIVER'S AID. Now, companies ranging from tiny Minute Man to Sony Corp. and Northwest Airlines Inc. are trying to adapt GPS for widespread civilian use. Basic GPS technology, which tells you where you are, could soon speed up takeoffs and landings at crowded airports by allowing jumbo jets to fly closer, also cutting fuel costs. Geologists say they can use GPS to watch for subtle changes in the earth's surface to get advanced warnings of killer earthquakes.

By combining GPS signals with other data,

such as digitized land maps, more intriguing systems are possible. For example, intelligent vehicle-tracking systems could show drivers, on small dashboard computer screens, how to circumvent a traffic jam or where the nearest automatic-teller machine is.

How does it work? The Defense Dept.'s Navstar Global Positioning System incorporates a string of satellites that orbit 11,000 miles above the earth. Each satellite contains four atomic clocks and broadcasts time data and other information identifying itself and describing its path. Receivers compare the signals with their own clocks and then determine their location by calculating the distance between them and the satellite. By locking on to four satellites, a receiver can pinpoint its position to within 16 meters. By adding data from a second, stationary receiver, readings can be refined to centimeter accuracy.

That prospect has inspired a rush into the GPS business. Stephen Colwell, presi-

dent of Colwell-Kirtland International, Sunnyvale (Calif.) consultant to the GPS industry, says more than \$100 million worth of GPS receivers—about a third of the total market—were sold to nonmilitary users in 1991. For this year, he projects sales of \$600 million, two-thirds of which will be for civilian applications. Since last fall, 14 companies have jumped into the civilian GPS market, joining industry leader Trimble Navigation, which in 1990 nearly doubled sales to almost \$63 million. Challengers to Trimble's success include electronics giant Sony, which announced last November \$1,500 GPS receiver for hikers.

FUDGE FACTOR. While the market remains small, the early commitment by such big names is impressive considering that the government still considers GPS experimental. Worse for customers, when the system becomes fully operational in late 1993, Defense intends to continue artificially degrading the signals from the 24 Navstar satellites for national security reasons. By fudging the clocks' signals by nanoseconds—a technique called selective availability—the military is able to throw receivers off by as much as 100 meters.

That's enough to keep an enemy from using the GPS signals to launch a missile, which is how Defense says it can comply

with federal guidelines to make GPS available to civilians without jeopardizing national security. But critics say it's also enough to slow down many commercial plans. Bob Buley, a Northwest pilot and manager for flight-operation development, says compensating for the signal degradation would require special classified equipment and codes, needlessly driving up costs.

But no matter how Defense alters the satellite signals, Buley claims, anybody with enough receivers and computing savvy will be able to get accurate readings anyway. "We will figure out ways to beat it," says Buley. "It'll cost money, but we'll beat it." And they can't, there's always GLONASS, or Global Navigation Satellite

INCREASING EFFICIENCY WITH GLOBAL POSITIONING

Here's how a global positioning system could soon help America's farmers spread fertilizer and herbicides more precisely, without overlapping rows, saving millions annually



DATA: BW

stem, a Navstar clone developed by the former Soviet Union. Although not as well-developed as the U.S. system, GLONASS is being tested by Northwest and United Airlines Inc.

GPS PATROL. There may also be other applications. Private satellite networks designed for voice and data communications, such as Motorola's Iridium system, can also emit signals for use in location tracking. Loral Corp. and Qualcomm Inc. are working on a string of ground-orbiting satellites called Globalstar that will provide cellular communications and positioning data.

So companies such as Northwest are going ahead with GPS projects. Northwest, among other airlines, is working with the Federal Aviation Administration to use GPS to create safer, more efficient flight paths. The idea is to use GPS signals to let every pilot, local air-traffic controller, and regional Federal Aviation Administration center know where every aircraft is at all times. In that way, planes can be placed more closely together upon approach to airport runways.

To get accuracy to within a centimeter, the airlines and the FAA are looking at differential GPS, a technique that compares the signals received by a receiver on a plane to those picked up by a stationary receiver, say, near the control tower. Someday, according to Buley and officials at the FAA, GPS could be used for automated landings in even the densest fog.

SAVER. As knowledge of GPS grows, so do the potential uses. Satlock Inc., a small startup in Stanfield, Ariz., is developing a GPS-based navigation aid that will help aerial crop sprayers spread fertilizers and pesticides more effectively. Instead of dropping 5-inch by 5-inch grids with toilet-paper streamers or relying on farmhands holding flagpoles to mark their last pass, the system uses readings from the satellites to keep an accurate record of where they've flown over a crop field. A similar system has been tested for spreading insecticides and fertilizer from tractors. By avoiding overspraying and overfertilizing, GPS is expected to save money and reduce pollution.

More applications will pop up as the cost of GPS receiver chips drops, from about \$200 now. A \$50 chip would make it practical, for instance, to install a GPS receiver under the hood of your car. Says John Pemberton, an analyst at Partner Group, a Stamford (Conn.) market researcher. Then, in case of an accident, a radio transmitter could automatically broadcast your car's position to the police. That could make GPS a lifesaver as well as a money saver.

By Paul M. Eng in New York, with Amy Morris in Washington

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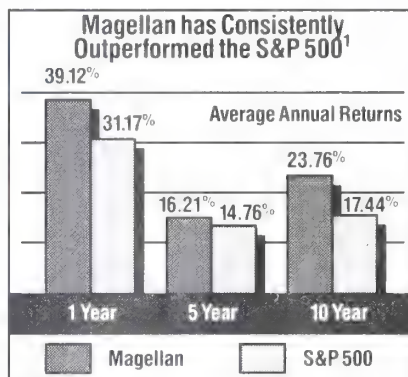
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CODE: BW/MAGI/021092

IDEAS GALORE, BUT WHERE ARE THE GOODS?

At MIT's Media Lab, products have been slow in coming

Back in 1987, Stephen Benton drew raves for his unique rendering of a Chevy Camaro: He created an eight-inch hologram of the muscle car. Projected off a clear film, it seemed to float in midair.

Benton, a researcher at the Media Laboratory at Massachusetts Institute of Technology, thought auto makers could develop new models faster by ma-

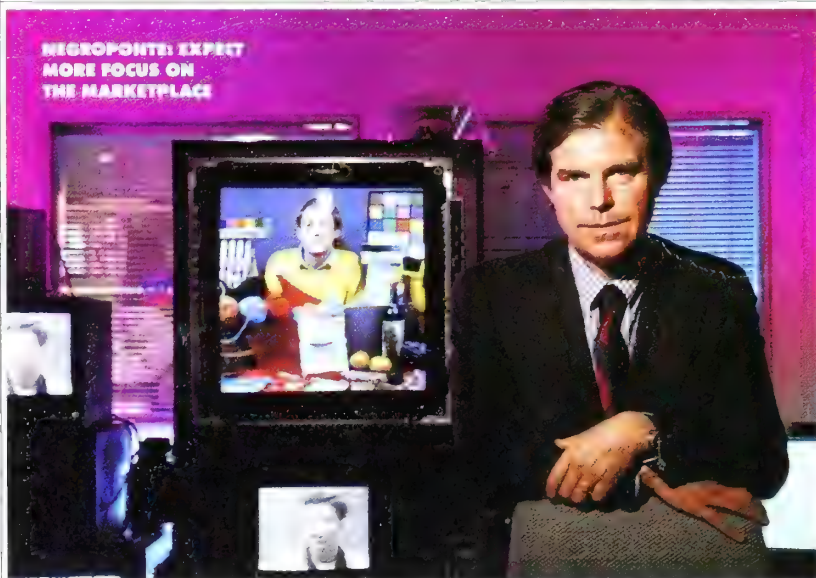
past 30 months, leaving about 60 in the fold. The lab "hasn't lived up to its initial charter," asserts Michael A. Isnardi, a former researcher there who heads the systems-research group at David Sarnoff Research Center in Princeton, N. J. Now, Negroponte is taking steps to make the lab more effective.

The Media Lab never promised results in less than 5 to 10 years. But that got

concepts these teams have delivered i "scalable video," the now accepted notion that a single broadcast signal can serve everything from a black-and-white TV to future high-definition television (HDTV) systems. The lab's bold vision of the marriage of computers, TV, and film technologies has also brought together the likes of Apple, Disney, and Nintendo. To some sponsors, who pay up to \$1 million a year for "open-door" access to all the lab's work, just being exposed to these creative talents is worth plenty. Says a top NEC Corp. official: "What we've learned is a way of thinking—very different from the way Japanese think about research."

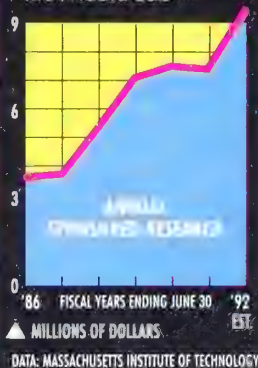
LITTLE CROSSOVER. Still, some sponsors long for more. After GM's departure last year, American Telephone & Telegraph Co. withdrew from a long-range project on compressing data for more efficient

transfer over phone lines. And an executive at another sponsor, who requests anonymity, bemoans the lab's inability to transform its ideas into technology. "If it had managed to hit on all cylinders in a way consistent with its mission, it could have had an enormous impact," says this executive. While other MIT labs and researchers have spun out dozens of new companies over the past seven years, the Media Lab has spawned just one.



WILL MIT'S GRAND VISION PAY OFF?

Corporations and the U.S. government have pumped millions into the Media Lab



nipulating his computer-generated holograms than by constantly revising clay prototypes. But by last June, he was still years away from his goal—and General Motors Corp. ended its \$1 million in support. "We might still do it if we can find another sponsor," says Benton. But for now, the project is "on hiatus."

LOST SPONSORS. That tale illustrates what's troubling one of America's most ambitious research initiatives. Founded in 1985, the Media Lab aimed to be the place where companies could jointly explore 21st-century computer technologies. The lab's 48-year-old founder, MIT professor Nicholas Negroponte, has raised \$42 million for research so far. Lab researchers have won 9 patents, filed for 17 more, and signed 3 licensing deals. But just two of their innovations have gone into products. And 12 corporate sponsors have dropped out in the

lost in the initial hyperbole. "Our charter," the lab's brochure still says, is "...to drive technological inventions and break engineering deadlocks with new perspectives and demanding applications." Negroponte recruited some of MIT's best and brightest, including artificial-intelligence pioneer Marvin L. Minsky and learning theorist Seymour A. Papert. Glowing news accounts, plus a breathless 1987 book from Stewart Brand, creator of *The Last Whole Earth Catalog*, helped attract sponsors. Of the \$9.4 million Negroponte raised for fiscal 1992, corporate biggies such as Apple Computer, IBM, and Sony kicked in 70%. The Defense Dept. and the National Science Foundation came up with the rest.

They've gotten a fountain of ideas for their money. The lab's 134 researchers, about 75% of them graduate students, are organized into 12 groups. Among the

Cambridge-based Digital Video Applications Corp. (DIVA) will soon ship its first product—a programming tool for incorporating video into computer software.

The lab is falling short by other traditional measures, too. For instance, few of its graduate students have gone on to prominent roles in industry. The record is lackluster in part because researcher William F. Schreiber took his advanced television consortium to another MIT lab in mid-1989 rather than let Japanese companies see his HDTV research under the Media Lab's open-door policy. Eight sponsors tagged along, including ABC, NBC, and Zenith. Now, former graduate students of Schreiber's have prepared three of the six HDTV development proposals the Federal Communication Commission is considering. Greg B. Thargard, vice-president at Colorsystem Technology Inc. in Los Angeles, says

at most companies won't look at grads
ined in far-out concepts. He adds:
ometimes the fantasy gets overdone."
The lab might strike a better balance
Negroponte came down to earth. He
aged 400,000 miles last year in his
test for sponsors, leaving little time to
ordinate research efforts. "Negropont-
is a remarkably adept front man,"
s an executive whose company left
lab. But he faults the director for
having his researchers keep a closer
e on what sponsors want from their
rk: "A manager he is not."

W FIELDS. Negroponte dismisses such
ticisms. To use the lab's patent tally
a measure of success ignores its fo-
s on advanced research, he says: "The
ng we like to do is find fields that are
olutely new." Those take time to de-
op, he adds. Only last year, for exam-
did Benton's work in color hologra-
y yield its first patent.

Still, Negroponte seems to have heard
criticisms. He plans to travel less from

PATENT PICTURE

Media Lab has gotten 9 patents, with 7 more pending. The most promising:

- UNRECORDABLE VIDEO** Equipment alters broadcast signals so home VCRs cannot record pay-per-view shows.
- MOVIE ICONS.** To help integrate video and computers, the lab has invented micons, which represent film clips stored on disks.
- FRACTAL IMAGE COMPRESSION** An exotic mathematical model compresses video signals so they can be stored or transmitted more efficiently.

DATA: MASSACHUSETTS INSTITUTE OF TECHNOLOGY, IOW

w on and to tighten the lab's focus.
w lab recruits will work mostly on the
sic challenge of merging computer
d video technologies. This work "is a
lwhether for [the lab's] future," the
ector says. Within five years, he adds,
the lab's groups will be grappling
ch aspects of this problem, such as
ping TVs, computers, printers, and the
e extract the information they need
om the same digital signal.
The lab will seek more patents, too.
groponte says this reflects his re-
archers' desire to reap royalties from
eir work. But that's not the only rea-
a, says Hans Peter Brondmo, co-
ander of DIVA, the lab's spin-off. Late-
he says, corporate sponsors have
en demanding proof that their invest-
ents will pay off. So now, "there's a
sire to create a portfolio to show cur-
nt and prospective investors." Whatev-
the stimulus, if the Media Lab's big
nkers turn into big producers, too, the
o may finally live up to its hype.

by Gary McWilliams in Cambridge, Mass.

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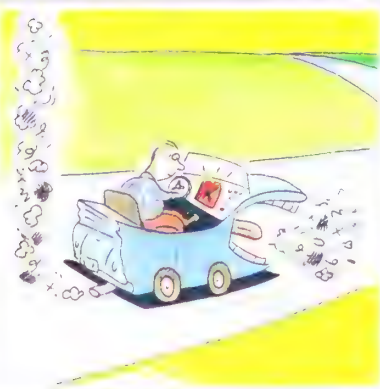
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Developments to Watch

EDITED BY FLEUR TEMPLETON

A SUREFIRE MONITOR FOR MISFIRING ENGINES



In 1989, the California Air Resources Board created a headache for the auto industry. It set a mid-1994 deadline for carmakers to install detection devices for cylinder misfires, which eventually can destroy a catalytic converter and thus cause more pollution. At the time, there wasn't a built-in monitor that could do the job.

Now, a Purdue University team has developed a way to use sensors along with a digital signal-processing chip from Texas Instruments Inc. to detect even the slightest misfiring. The system measures the speed at which a piston completes one stroke and compares that to the adjacent piston's speed. In a smooth-running engine, the two speeds are the same. The system can distinguish between actual misfires and vibrations caused by rough roads or the drivetrain. Look for a red warning light on dashboards across the country to start flashing "misfire" sometime near the end of the decade.

TWO SMART-HOME SYSTEMS START BUTTING HEADS

In the 1980s, U.S. homebuilders were worried that Japan and Europe would take the lead in home-automation systems. The overseas competitors were creating standards designed to spur development of "smart" appliances, furnaces, air conditioners, and security systems—a market that could reach \$5 billion annually in the U.S. by the year 2000.

To head off the threat, three dozen American companies, including phone companies and gas and electric utilities, formed Smart House LP in Upper Marlboro, Md. Last fall, the base technology, called Smart-Redi, began going into new homes. The integrated wiring system can pipe electrical, hi-fi, video, computer-control, and phone signals to any wall socket. Appliances and other products designed for Smart-Redi will hit the market this year.

But not everyone is banking on Smart House systems, which will cost \$15,000 and up. Honeywell Inc., for example, unveiled TotalHome in late January. This scheme integrates the Minneapolis company's comfort controls with a remote-controlled security system. But TotalHome doesn't need special wiring—and it will cost only half as much as the Smart House technology.

PUTTING A KEY BIOTECH TOOL INTO MORE HANDS

Polymerase chain reaction, or PCR, is one of the wonders of the biotechnology age. By allowing scientists to create millions of copies of a piece of DNA, it can be used to spot inherited genetic defects or to study the genes of extinct creatures. But PCR has been at the center of a bitter controversy over the restrictive licensing policy set by its patent owner,

Hoffmann-La Roche Inc. Academic or company labs that want to use the technique must pay Roche thousands of dollars up front, plus \$25 for each person tested. In addition, using PCR to test for paternity or infectious diseases was flatly prohibited by Roche.

But the mounting criticism has had an effect. On Jan. 2, Roche Molecular Systems announced a sweeping change in PCR licensing. It slashed fees and agreed to let licensees move into the formerly restricted areas. The change promises lower costs dramatically—and widen the reach of diagnostic tests for everything from cystic fibrosis to viral diseases. "It's going to make a tremendous difference—like night and day," says Thomas K. Reed Jr. of Vivigen Inc., a Santa Fe (N.M.) company that undertakes such tests.

WHY U.S. COMPANIES ARE LOSING GROUND IN THEIR OWN BACKYARD

Why do American companies keep falling behind their foreign rivals? One possible answer is starkly revealed in a new study by John R. Norsworthy and Show-Ling Jang of Rensselaer Polytechnic Institute in Troy, N.Y. The researchers compared the technology at U.S.-owned factories with that employed in foreign-owned or affiliated plants in the U.S.

They discovered that the foreign-controlled plants in the U.S. were far more up-to-date, using 30% more of such advanced methods as computer-aided manufacturing and design. The differences were most striking in industries where American companies have been losing market share, such as semiconductors and automobiles.

The foreign-owned factories also continued to invest more money in new machinery and equipment. The trend doesn't bode well for the future of U.S. industry, Norsworthy warns. "I think it will turn out that these advanced technologies have an impact on productivity."

BRIDGE LOOKING SHAKY? QUICK, TAKE A VIDEO HOLOGRAM

Bridges and buildings are subject to decay, but disaster may be prevented if strains are found in time. A new technology, the Holostrain System from the Illinois Institute of Technology in Chicago, uses a video camera to scan structures and analyzes the images with special software on a PC.

Conventional holography employs a laser and ordinary film to photograph a surface, but Holostrain reconstructs the image electronically after it is captured on video. The highly sensitive system measures displacements smaller than one-tenth of a micron, says Cesar Sciammarella, aerospace engineering professor at IIT. Moreover, Holostrain is portable—and can identify stresses on the spot.

The research was funded by the National Science Foundation and by NASA, which will use Holostrain in its National Aerospace Plane project. Sciammarella also expects the system to be used by auto and aircraft manufacturers. It may enter the market by the end of this year and should sell for \$30,000 to \$100,000 depending on how sophisticated the system is.



IF IT'S A MILD RECESSION, WHY IS IT SO PAINFUL?

Job slips hurt, but what really spooks consumers is weak incomes

Economists have been puzzled for months over why the economy is making people feel so bad. Surveys by the Conference Board and the University of Michigan show that consumer confidence is as low as it was in the 1981-82 recession. But unemployment was nearly 10% back then, vs. 7% today. And subtle job-market indicators, such as the number of people who have stopped looking for work, are much lower now as well. So why all the pessimism?

The lingering recession, economists are starting to say, has focused public attention on a depressing fact: For a decade or more, pay raises for Americans without college degrees have lagged behind inflation. And now, even the privileged few—those whose family incomes up to six-digit territory—are being force-fed a taste of poverty. In 1990, their real incomes fell by as much as 5%—further, by far, than those of the unlucky many.

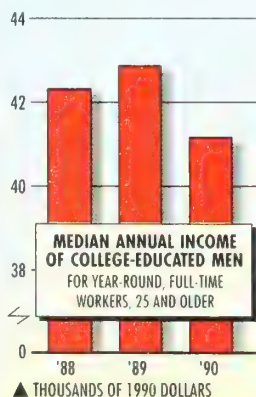
There seems to be an underlying lack of confidence that's not just coming from the recession," says Robert Meisenheimer, an economist at the Bureau of Labor Statistics (BLS). Adds Barry Mishel of the Economic Policy Institute (EPI), a liberal Washington think tank: "All the bright spots of the 1980s have dimmed. Men's wages aren't going up anymore, and white-collar and college-educated employees are being squeezed for the first time." In short, stagnating income, as much as a scarcity of jobs, is what's making consumers unhappy.

AT THE PEAK? Hourly workers spent much of the 1980s dueling with this problem. Their real wages fell as companies cut labor costs. So more wives entered the work force, bolstering family incomes and confidence. This strategy can't offset a slump, however. Adjusted for inflation, the average hourly wage of U.S. workers

fell from \$10.91 in 1989 to \$10.37 in the first quarter of 1991, according to an analysis of BLS data by the EPI. At the same time, the share of women holding jobs leveled off at 57%. And in 1990, the EPI says, their inflation-adjusted pay fell slightly, by 0.7%. "Many families can't work any more than they now do, because the wives already have a job," says David E. Card, an economist at Princeton University. "The recession may have made



THE RECESSION HAS HIT COLLEGE GRADS...



...AS WELL AS WEALTHY FAMILIES

	1990 AVERAGE INCOME	1979-90	1989-90
TOP 5%	\$148,100	16.9%	-5.3%
TOP 20%**	94,400	12.8	-3.3
SECOND 20%	50,800	5.1	-2.1
THIRD 20%	35,300	0.7	-2.0
FOURTH 20%	22,900	-1.3	-1.2
LOWEST 20%	9,800	-6.6	-1.1

*AFTER ADJUSTING FOR INFLATION

**INCLUDES TOP 5%

DATA: ECONOMIC POLICY INSTITUTE

them realize that their incomes have peaked, with little prospect for growth even in a recovery."

White-collar and college-educated employees appear to be getting the same message. The incomes of both groups started outpacing inflation in 1982. In 1987, however, white-collar pay faltered. By 1990, it lagged inflation by 2%. College-educated men, who prospered through 1989, have suffered a shock since then: Their inflation-adjusted incomes fell by 4% in 1990, according to the EPI.

One reason may be that many com-

panies have cut payrolls in part by getting older employees to retire early. These people don't show up on jobless rolls or as discouraged workers. Many are high-income white-collar men who have been replaced by younger, lower-paid employees. This changing mix of wages may be what is dragging down average incomes for college grads.

Even the wealthy aren't immune to this trend. Starting in the 1981 recession, families in the top one-fifth of earners got richer every year—as those on the bottom got poorer. By 1990, however, the incomes of the well-heeled were dropping more quickly (table). Some economists speculate that interest-rate declines may strike harder at high-income families, who own more bonds. "An important source of rising inequality was rising real interest rates," says Sheldon Danziger, who is a professor of social work at the University of Michigan. "They're down now, which hurts the elderly and the rich."

INTRACTABLE. If poorer consumers see poetic justice in this, it hardly gives them much comfort. Their purchasing power may be holding up better for now. But they don't have that much to begin with.

What's more, their problems may be more intractable. Although the bottom 20% of wage earners lagged behind inflation through the 1980s, a plentiful supply of low-paying jobs at least meant that they could find work fairly easily. No longer. Industries such as retailing have shed thousands of part-time jobs that won't come back soon, if ever. This hasn't shown up in the unemployment rate of women—perhaps because many have stopped looking for work and gone on welfare. Some 94% of such recipients are female. And the welfare

rolls have swelled by 24% since 1989, to 4.6 million. "Not only are more people coming onto welfare, but the number leaving has fallen," notes Rick Ferreira, a senior policy associate at the American Public Welfare Assn., a Washington lobbying group. "There are just no jobs anymore."

Unemployment may be relatively low for a recession that looks and feels so bad. But if income trends are any harbinger, consumers could suffer from a lengthy hangover even after the jobless rate improves.

By Aaron Bernstein in New York

SHORT CHAPTER, HAPPY ENDING

How Federated is pulling out of bankruptcy sooner than expected

It listed 50,000 creditors with claims of \$90 billion. It accumulated at least 7,700 separate petitions, exhibits, and other specimens of mind-numbing legalese. It was the Chapter 11 filing of Federated Department Stores and Allied Stores Corp., and it had all the markings of the Bankruptcy from Hell. When the chains filed on Jan. 15, 1990, pessimists figured that 5 to 10 years might pass before they left bankruptcy.

But now, as rival R. H. Macy & Co. slides into Chapter 11, Federated and Allied are poised to emerge from bankruptcy by mid-February as a new entity, Federated Department Stores Inc. It has severed all ties to Canada's Campeau Corp., whose founder, real estate developer Robert Campeau, bought Allied and then Federated in debt-fueled deals worth \$11 billion. Federated's banks, investment advisers, bondholders, and retail suppliers will drop their original claims largely in exchange for new notes and stock. The deal wipes away \$5 billion in liabilities.

'STRANGE TRIP.' Despite some stiff challenges, the new Federated has a fighting chance of survival. That's heartening news for Macy's executives, but nobody is pretending the Federated bankruptcy was a cakewalk. Presiding Judge J. Vincent Aug Jr. recently called the workout "a long strange trip." Among the pitfalls were a threatened lawsuit by Allied bondholders, a near-rebellion by major creditors, and a brutal recession.

Unlike Macy's, Federated planned for its filing months in advance. In September, 1989, it hired Cleveland law firm Jones, Day, Reavis & Pogue and its partner David Heiman as legal standard-bearer. Heiman arranged contingency fi-

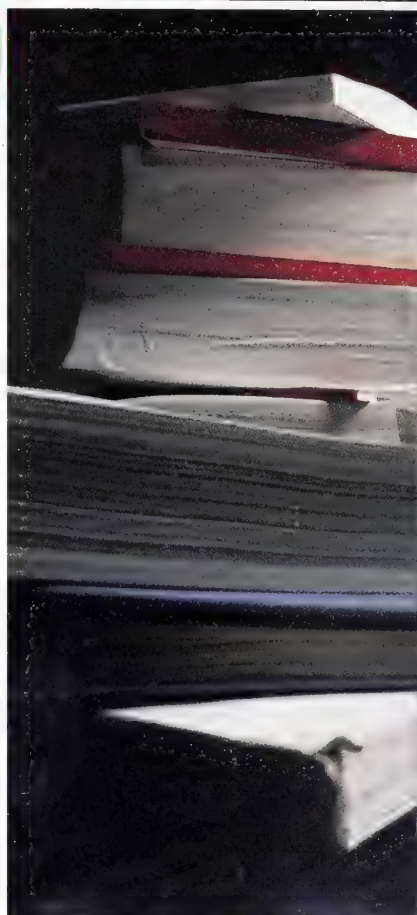
nancing well in advance and had a team ready to examine creditors' claims.

Also on hand were two able insiders. One was G. William Miller, a Federated board member, former Treasury Secretary, and the man who oversaw Chrysler Corp.'s restructuring. Just after the filing, Miller signed up as the new chairman of Federated Stores—on the crucial condition that Campeau Corp. and Robert Campeau got no concessions and had nothing to do with a workout. The board agreed, and bondholders took heart. Says James Heffernan, a partner in the investment firm of Whitman, Heffernan & Rhein, and a Federated bondholder: "The people at Federated had no interest in giving anything to Campeau, and that made things a lot easier."

Miller also recruited a top-notch merchant as operating chief: Allen Questrom, who had left his job as CEO of Federated's Bullock's chain when Campeau took over. But Miller's real trouble-shooters in the bankruptcy itself have been Heiman on the outside and Vice-Chairman and Chief Financial Officer Ronald W. Tysoe on the inside.

In some ways, Tysoe, 38, was an odd choice: He was Campeau's right-hand man in takeovers. But since he had gotten 92 banks, including Citibank, to lend Campeau money in the first place, the Canadian-born Tysoe seemed adept at negotiating a rescue. And in contrast to the controversial behavior of his ex-boss, Tysoe's unflappability and financial acumen were reassuring to creditors. "Tysoe was critical to the future success of the company," says Todd Slotkin, Citibank's head of leverage lending.

Tysoe, a law and business graduate of the University of British Columbia, says



his long working relationship with the banks helped: "They knew I had no secret agenda." But just to make sure there was no falling out, Tysoe pressed for and ultimately won the agreement that all claimants to release former and current Federated and Allied directors and officers, including himself, from any liability related to the takeovers.

TWO CRISES. From the first, Tysoe warned lenders to forgive the old debt and accept equity in partial payment. Owed \$1.9 billion, the bank lenders balked, and none more so than Citibank. Already the senior bank on several retail bankruptcies—Circle K, Ames Department Stores Group, and Southland—Citibank wanted its loans back in cash and not too fast. For over a year, Slotkin and other members of the syndicate opposed Tysoe, favoring a big asset sell-off. Tysoe argued that a distress sale would fetch crummy prices and satisfy no one.

The bankers eventually agreed to take 24% of their Federated claims in equity.

THIS WAY OUT

Key dates in the Chapter 11 proceedings of Federated Stores and Allied Department Stores

DATA: COMPAQ, U.S. DISTRICT COURT

SEPTEMBER, 1989

Federated and Allied hire law firm Jones, Day, Reavis & Pogue to begin planning for Chapter 11

JANUARY, 1990

Chapter 11 proceedings start in Cincinnati; vendors unable to cash \$100 million in payments

FEBRUARY, 1990

Allen Questrom, a former Federated manager, hired away from Neiman Marcus to run stores

SEPTEMBER, 1990

Allied bondholders prepare complaint against fraudulent conveyance by several parties in the takeovers



Many creditors wanted a sell-off, but Tysoe talked them into a reorganization

the rest in cash and new notes. Then came a second crisis. Federated needed more working capital it could use to emerge from bankruptcy. Chemical Bank tried to put together a new syndicate to provide up to \$700 million, but it failed. Few banks were left that hadn't already lent Federated money, and those that were believed the new Federated would still be too highly leveraged. Finally, the original bank lenders, fearing that Federated might never have the funds to compete effectively, agreed to forgo the cash part of their deal in exchange for another new note. Says Tysoe: "We realized it was up to us to come up with a solution to make sure the company was well-capitalized."

Tysoe's work didn't end with the bank deal. Looming over the bankruptcy was the threat of a lawsuit from Allied bondholders. These investors were livid that Campeau had sold Allied's Brooks Brothers and Ann Taylor divisions and taken the cash to his holding company,

Federated Stores Inc. In exchange for the cash, FSI gave Allied stock in Federated. FSI then used the cash to pay down debt Federated owed—from its own takeover—to Banque Paribas and Bank of Montreal. Allied bondholders charged that Allied had been given worthless stock and deprived of crucial funds. So they planned on a \$1.2 billion, carpet-bombing suit charging "fraudulent conveyance" against Allied, Federated, Citibank, Banque Paribas, Bank of Montreal, and First Boston, which had given Campeau takeover advice.

'GOING NUTS.' For months, the Allied case seemed to be going nowhere, largely because Judge Aug had enjoined the bondholders from suing. "The Allied bondholders were going nuts, and nobody was listening to them," says Peter Chapman, editor of *Bankruptcy Creditors' Service*, a daily newsletter that tracked Federated. Then Ellen Werther, a partner at Coudert Brothers and the Allied bondholders' attorney, petitioned

to have an examiner appointed to decide the merits of the bondholders' claims. Within weeks, they had a deal to drop their complaint in exchange for new equity valued by Federated at \$472.5 million. The biggest barrier to a workout was gone.

What happened? The answer lies in a depository in Manhattan, where 400,000 pages of documents related to the bankruptcy have been placed. Outsiders are barred by court order from viewing the sensitive papers. But lawyers for all parties had access, and as they burrowed, Werther and Tysoe say the strength of the case emerged. Says Tysoe: "We knew the potential for liability was there."

First Boston and Bank of Montreal disagree. "The documents that the Bank of Montreal submitted did not in any way establish fraudulent conveyance," says Robert Finke, an attorney at Mayer Brown & Platt in Chicago, the bank's counsel. "They showed the opposite." Banque Paribas could not be reached, and Citibank would not comment. Bank of Montreal, Banque Paribas, and First Boston will swap their claims for new equity.

NORTHEAST EXPOSURE. With the fraudulent-conveyance issue settled, Federated has had other headaches, most notably a hassle with the Internal Revenue Service, which it says has been resolved. And the struggles will continue after bankruptcy. Many Federated chains, which include Stern's and Abraham & Straus, are in the recession-weary Northeast.

The post-bankruptcy Federated will still be heavily leveraged with \$3.5 billion in debt on its balance sheet. Another potential problem is consumers' increased enthusiasm for bargains, which means that even after the economy comes out of a recession, "department stores will not be able to mark up as they used to," warns Barbara Wedelstaedt, a junk-bond analyst at Duff & Phelps Inc. "So the general level of profitability will not reach what it did in the 1980s." On the other hand, virtually anything would be better than what Federated went through in the 1980s.

By Laura Zinn with Michele Galen in New York

APRIL, 1991

Creditors threaten their own plan to raise cash by selling

JUNE, 1991

Allied bondholders, in return for \$472.5 million in new Federated stock, drop all claims of fraudulent conveyance

AUGUST, 1991

Company persuades bank syndicate to take more equity

DECEMBER, 1991

Judge approves company plan to swap \$5 billion in bank debt and other liabilities for new notes and equity

FEBRUARY, 1992

Emergence from Chapter 11 scheduled for Federated Department Stores, a retailer with \$7.2 billion in sales

PORTRAIT OF A QUITTER



IF YOU'VE GOT THE WILL,

I'm embarrassed to tell you how many times I've tried to go cold turkey to quit smoking. But I never really lasted. Sooner or later, I'd start smoking again. Then, my doctor suggested a new approach that includes the Habitrol™ (nicotine) patch.

*'TIL NOW, I NEVER
THOUGHT I COULD
REALLY QUIT SMOKING.*



Habitrol is a skin patch. When used as part of a comprehensive smoking cessation program, it has been clinically proven to significantly increase the chances of quitting by relieving the craving for nicotine.

In addition to the smoking cessation program, I was given a free kit. The kit includes tips on getting through the rough times and an audio tape for relaxation and motivation. My doctor is a big support as well. He even gave me a list of support groups I could attend.

Of course, Habitrol won't work for everyone. Only your doctor can determine if it's right for you. If you're pregnant or suffer from any serious disease, be sure to tell your doctor. The most common side effect is skin irritation.

If you're really determined to quit, ask your doctor about Habitrol therapy. Or call 1-800-YES-U-CAN, for more information, today.

If you're tired of quitting and failing, this could be your chance.

OW YOU CAN HAVE THE POWER.

NEW
Habitrol™
(nicotine)

Habitrol™
(nicotine)
Transdermal Therapeutic System
Systemic delivery of 21, 14, or 7 mg/day over 24 hours

BRIEF SUMMARY. FOR FULL PRESCRIBING INFORMATION SEE PACKAGE INSERT.

INDICATIONS AND USAGE

Habitrol is indicated for the treatment of nicotine withdrawal symptoms. Habitrol treatment should be used as a part of a comprehensive behavioral smoking cessation program.

The use of Habitrol systems for longer than 3 months has not been studied.

CONTRAINDICATIONS

Use of Habitrol systems is contraindicated in patients with hypersensitivity or allergy to nicotine or to any of the components of the therapeutic system.

WARNINGS

Nicotine from any source can be toxic and addictive. Smoking causes lung cancer, heart disease, emphysema, and may adversely affect the fetus and the pregnant woman. For any smoker, with or without concomitant disease or pregnancy, the risk of nicotine replacement in a smoking cessation program should be weighed against the hazard of continued smoking while using Habitrol systems, and the likelihood of achieving cessation of smoking without nicotine replacement.

Pregnancy Warning

Tobacco smoke, which has been shown to be harmful to the fetus, contains nicotine, hydrogen cyanide, and carbon monoxide. Nicotine has been shown in animal studies to cause fetal harm. It is therefore presumed that Habitrol treatment can cause fetal harm when administered to a pregnant woman. The effect of nicotine delivery by Habitrol systems has not been examined in pregnancy (see PRECAUTIONS, Other Effects). Therefore, pregnant smokers should be encouraged to attempt cessation using educational and behavioral interventions before using pharmacological approaches. If Habitrol therapy is used during pregnancy or if the patient becomes pregnant while using Habitrol treatment, the patient should be apprised of the potential hazard to the fetus.

Safety Note Concerning Children

The amounts of nicotine that are tolerated by adult smokers can produce symptoms of poisoning and could prove fatal if Habitrol systems are applied, or ingested by children or pets. Used 21 mg/day systems contain about 60% (32 mg) of their initial drug content. Therefore, patients should be cautioned to keep both used and unused Habitrol systems out of the reach of children and pets.

PRECAUTIONS

General

The patient should be urged to stop smoking completely when initiating Habitrol therapy (see DOSAGE AND ADMINISTRATION). Patients should be informed that if they continue to smoke while using Habitrol systems, they may experience adverse effects due to peak nicotine levels higher than those experienced from smoking alone. If there is a clinically significant increase in cardiovascular or other effects attributable to nicotine, the Habitrol dose should be reduced or Habitrol treatment discontinued (see WARNINGS). Physicians should anticipate that concomitant medications may need dosage adjustment (see Drug Interactions).

The use of Habitrol systems beyond 3 months by patients who stop smoking should be discouraged because the chronic consumption of nicotine by any route can be harmful and addictive.

Allergic Reactions: In a 6-week, open-label, dermal irritation and sensitization study of Habitrol systems, 22 of 220 patients exhibited delimitate erythema at 24 hours after application. Upon rechallenge, 3 patients exhibited mild-to-moderate contact allergy. Patients with contact sensitization should be cautioned that a serious reaction could occur from exposure to other nicotine-containing products or smoking. In the efficacy trials, erythema following system removal was typically seen in about 17% of patients, some edema in 4%, and dropouts due to skin reactions occurred in 6% of patients.

Patients should be instructed to promptly discontinue the Habitrol treatment, and contact their physicians if they experience severe or persistent local skin reactions at the site of application (e.g., severe erythema, pruritus or edema) or a generalized skin reaction (e.g., urticaria, hives, or generalized rash).

Skin Diseases: Habitrol systems are usually well tolerated by patients with normal skin, but may be irritating for patients with some skin disorders (atopic or eczematous).

Cardiovascular or Peripheral Vascular Diseases: The risks of nicotine replacement in patients with certain cardiovascular and peripheral vascular diseases should be weighed against the benefits of including nicotine replacement in a smoking cessation program for them. Specifically, patients with coronary heart disease, history of myocardial infarction and/or angina pectoris, serious cardiac arrhythmias, or vasospastic diseases (Buerger's disease, Prinzmetal's variant angina) should be carefully screened and evaluated before nicotine replacement is prescribed.

Tachycardia occurring in association with the use of Habitrol treatment was reported occasionally. If serious cardiovascular symptoms occur with Habitrol treatment, it should be discontinued.

Habitrol treatment should generally not be used in patients during the immediate post-myocardial infarction period, patients with serious arrhythmias, and patients with severe or worsening angina pectoris.

Renal or Hepatic Insufficiency: The pharmacokinetics of nicotine have not been studied in the elderly or in patients with renal or hepatic impairment. However, since nicotine is extensively metabolized and that its total system clearance is dependent on liver blood flow, some influence of hepatic impairment and/or reduced liver blood flow (e.g., liver disease) should be anticipated. Only severe renal impairment would be expected to affect the clearance of nicotine or its metabolites from the circulation (see CLINICAL PHARMACOLOGY, Pharmacokinetics).

Endocrine Diseases: Habitrol treatment should be used with caution in patients with hyperthyroidism, pheochromocytoma or insulin-dependent diabetes, since nicotine causes the release of catecholamines by the adrenal medulla.

Peptic Ulcer Disease: Nicotine delays healing in peptic ulcer disease; therefore Habitrol treatment should be used with caution in patients with active peptic ulcers and only when the benefits of including nicotine replacement in a smoking cessation program outweigh the risks.

Accelerated Hypertension: Nicotine constitutes a risk factor for development of mild- and hypertension in patients with accelerated hypertension; therefore Habitrol treatment should be used with caution in these patients and only when the benefits of including nicotine replacement in a smoking cessation program outweigh the risks.

For full prescribing information, see the package of Habitrol systems distributed to the patient. It contains important information and instructions on how to use and dispose of Habitrol systems properly. Patients should be encouraged to keep both used and unused Habitrol systems out of the reach of children and pets.

Drug Interactions

Drug Interactions

Smoking cessation, with or without nicotine replacement, may alter the pharmacokinetics of certain concomitant medications.

May Require a Decrease in Dose at Cessation of Smoking

Acetaminophen, caffeine, imipramine, oxazepam, pentazocine, propranolol, theophylline.

Insulin

Increase of subcutaneous insulin absorption with smoking cessation.

Adrenergic antagonists

(e.g., prazosin, labetalol).

May Require an Increase in Dose at Cessation of Smoking

Adrenergic agonists (e.g., isoproterenol, phenylephrine).

Carcinogenesis, Mutagenesis, Impairment of Fertility

Nicotine itself does not appear to be a carcinogen in laboratory animals. However, nicotine and its metabolites increased the incidence of tumors in the cheek pouches of hamsters and forestomach of F344 rats, respectively, when given in combination with tumor-initiators. One study, which could not be replicated, suggested that cotinine, the primary metabolite of nicotine, may cause lymphoreticular sarcoma in the large intestine in rats.

Nicotine and cotinine were not mutagenic in the Ames *Salmonella* test. Nicotine induced reparable DNA damage in an *E. coli* test system. Nicotine was shown to be genotoxic in a test system using Chinese hamster ovary cells. In rats and rabbits, implantation can be delayed or inhibited by reduction in DNA synthesis that appears to be caused by nicotine. Studies have shown a decrease in litter size in rats treated with nicotine during gestation.

Pregnancy Category D (see WARNINGS)

The harmful effects of cigarette smoking on maternal and fetal health are clearly established. These include low birth weight, an increased risk of spontaneous abortion, and increased perinatal mortality. The specific effects of Habitrol treatment on fetal development are unknown. Therefore, pregnant smokers should be encouraged to attempt cessation using educational and behavioral interventions before using pharmacological approaches.

Spontaneous abortion during nicotine replacement therapy has been reported, as with smoking, nicotine as a contributing factor cannot be excluded.

Habitrol treatment should be used during pregnancy only if the likelihood of smoking cessation justifies the potential risk of use of nicotine replacement by the patient who may continue to smoke.

Teratogenicity

Animal Studies: Nicotine was shown to produce skeletal abnormalities in the offspring of mice when given doses toxic to the dams (25 mg/kg/day IP or SC).

Human Studies: Nicotine teratogenicity has not been studied in humans except as a component of cigarette smoke (each cigarette smoked delivers about 1 mg of nicotine). It has not been possible to conclude whether cigarette smoking is teratogenic to humans.

Other Effects

Animal Studies: A nicotine bolus (up to 2 mg/kg) to pregnant rhesus monkeys caused acidosis, hypercarbia, and hypotension (fatal and maternal concentrations were about 20 times those achieved after smoking 1 cigarette in 5 minutes). Fetal breathing movements were reduced in the fetal lamb after intravenous injection of 0.25 mg/kg nicotine to the ewe (equivalent to smoking 1 cigarette every 20 seconds for 5 minutes). Uterine blood flow was reduced about 30% after infusion of 0.1 mg/kg/min nicotine for 20 minutes to pregnant rhesus monkeys (equivalent to smoking about 6 cigarettes every minute for 20 minutes).

Human Experience: Cigarette smoking during pregnancy is associated with an increased risk of spontaneous abortion, low-birth-weight infants and perinatal mortality. Nicotine and carbon monoxide are considered the most likely mediators of these outcomes. The effects of cigarette smoking on fetal cardiovascular parameters have been studied near term. Cigarettes increased fetal aortic blood flow and heart rate and decreased uterine blood flow and fetal breathing movements. Habitrol treatment has not been studied in pregnant humans.

Labor and Delivery

Habitrol systems are not recommended to be left on during labor and delivery. The effects of nicotine on the mother or the fetus during labor are unknown.

Nursing Mothers

Caution should be exercised when Habitrol therapy is administered to nursing women. The safety of Habitrol treatment in nursing infants has not been examined. Nicotine passes freely into breast milk; the milk-to-plasma ratio averages 2:9. Nicotine is absorbed orally. An infant has the ability to clear nicotine by hepatic first-pass clearance; however, the efficiency of removal is probably lowest at birth. The nicotine concentrations in milk can be expected to be lower with Habitrol treatment when used as directed than with cigarette smoking, as maternal plasma nicotine concentrations are generally reduced with nicotine replacement. The risk of exposure of the infant to nicotine from Habitrol systems should be weighed against the risks associated with the infant's exposure to nicotine from continued smoking by the mother (passive smoke exposure and contamination of breast milk with other components of tobacco smoke) and from Habitrol systems alone or in combination with continued smoking.

Pediatric Use

Habitrol systems are not recommended for use in children because the safety and effectiveness of Habitrol treatment in children and adolescents who smoke have not been evaluated.

Geriatric Use

Forty-eight patients over the age of 60 participated in clinical trials of Habitrol therapy. Habitrol therapy appeared to be as effective in this age group as in younger smokers.

ADVERSE REACTIONS

Assessment of adverse events in the 792 patients who participated in controlled clinical trials is complicated by the occurrence of GI and CNS effects of nicotine withdrawal as well as nicotine excess. The actual incidences of both are confounded by concurrent smoking by many of the patients. In the trials, when reporting adverse events, the investigators did not attempt to identify the cause of the symptom.

Topical Adverse Events

The most common adverse event associated with topical nicotine is a short-lived erythema, pruritus, or burning at the application site, which was seen at least once

in 35% of patients on Habitrol treatment in the clinical trials. Local erythema after system removal was noted at least once in 17% of patients and local edema in 4%. Erythema generally resolved within 24 hours. Cutaneous hypersensitivity (contact sensitization) occurred in 2% of patients on Habitrol treatment (see PRECAUTIONS, Allergic Reactions).

Probably Causally Related

The following adverse events were reported more frequently in Habitrol-treated patients than in placebo-treated patients or exhibited a dose response in clinical trials.

Digestive system - Diarrhea*, dyspepsia*
Mouth/Tooth disorders - Dry mouth*
Musculoskeletal system - Arthralgia*, myalgia*
Nervous system - Abnormal dreams†, somnolence†

Frequencies for 21 mg/day system

*Reported in 3% to 9% of patients
†Reported in 1% to 3% of patients
Unmarked if reported in < 1% of patients

Causal Relationship Unknown

Adverse events reported in Habitrol- and placebo-treated patients at about the same frequency in clinical trials are listed below. The clinical significance of the association between Habitrol treatment and these events is unknown, but they are reported as alerting information for the clinician.

Body as a whole - Allergy†, back pain†
Cardiovascular system - Hypertension†
Digestive system - Abdominal pain†, constipation†, nausea*, vomiting*
Nervous system - Dizziness*, concentration impaired†, headache (17%), insomnia*
Respiratory system - Cough increased†, pharyngitis†, sinusitis†
Urogenital system - Dysmenorrhea*

Frequencies for 21 mg/day system

*Reported in 3% to 9% of patients
†Reported in 1% to 3% of patients
Unmarked if reported in < 1% of patients

DRUG ABUSE AND DEPENDENCE

Habitrol systems are likely to have a low abuse potential based on differences between it and cigarettes in four characteristics commonly considered important in contributing to abuse: much slower absorption, much smaller fluctuations in blood levels, lower blood levels of nicotine, and less frequent use (i.e., once daily).

Dependence on nicotine poliacetylene chewing gum replacement therapy has been reported. Such dependence might also occur from transference to Habitrol systems of tobacco-based nicotine dependence. The use of the system beyond 3 months has not been evaluated and should be discouraged.

To minimize the risk of dependence, patients should be encouraged to withdraw gradually from Habitrol treatment after 4 to 8 weeks of usage. Recommended dose reduction is to progressively decrease the dose every 2 to 4 weeks (see DOSAGE AND ADMINISTRATION).

OVERDOSSAGE

The effects of applying several Habitrol systems simultaneously or of swallowing Habitrol systems are unknown (see WARNINGS, Safety Note Concerning Children).

The oral LD₅₀ for nicotine in rodents varies with species but is in excess of 24 mg/kg; death is due to respiratory paralysis. The oral minimum lethal dose of nicotine in dogs is greater than 5 mg/kg. The oral minimum acute lethal dose for nicotine in human adults is reported to be 40 to 60 mg (<1 mg/kg).

Two or three Habitrol 30 cm² systems in capsules led to dogs weighing 8-17 kg were emetic, but did not produce any other significant clinical signs. The administration of these patches corresponds to about 6-17 mg/kg of nicotine.

Signs and symptoms of an overdose of Habitrol systems would be expected to be the same as those of acute nicotine poisoning including pallor, cold sweat, nausea, salivation, vomiting, abdominal pain, diarrhea, headache, dizziness, disturbed hearing and vision, tremor, mental confusion and weakness. Prostration, hypotension, and respiratory failure may ensue with large overdoses. Lethal doses produce convulsions quickly and death follows as a result of peripheral or central respiratory paralysis or, less frequently, cardiac failure.

Overdose From Topical Exposure

The Habitrol system should be removed immediately if the patient shows signs of overdosage and the patient should seek immediate medical care. The skin surface may be flushed with water and dried. No soap should be used since it may increase nicotine absorption. Nicotine will continue to be delivered into the bloodstream for several hours (see CLINICAL PHARMACOLOGY, Pharmacokinetics) after removal of the system because of a depot of nicotine in the skin.

Overdose From Ingestion

Persons ingesting Habitrol systems should be referred to a health care facility for management. Due to the possibility of nicotine-induced seizures, activated charcoal should be administered. In unconscious patients with a secure airway, instill activated charcoal via nasogastric tube. A saline cathartic or sorbitol added to the first dose of activated charcoal may speed gastrointestinal passage of the system. Repeated doses of activated charcoal should be administered as long as the system remains in the gastrointestinal tract since it will continue to release nicotine for many hours.

Management of Nicotine Poisoning

Other supportive measures include diazepam or barbiturates for seizures, atropine for excessive bronchial secretions or diarrhea, respiratory support for respiratory failure, and vigorous fluid support for hypotension and cardiovascular collapse.

Safety and Handling

Habitrol systems can be a dermal irritant and can cause contact sensitization. Although exposure of health care workers to nicotine from Habitrol systems should be minimal, care should be taken to avoid unnecessary contact with active systems. If you do handle active systems, wash with water alone, since soap may increase nicotine absorption. Do not touch your eyes.

Disposal

When the used system is removed from the skin, it should be folded over and placed in the protective pouch which contained the new system. The used system should be immediately disposed of in such a way to prevent its access by children or pets. See patient information for further directions for handling and disposal.

How to Store

Do not store above 86°F (30°C) because Habitrol systems are sensitive to heat. A slight discoloration of the system is not significant.

Do not store unopened. Once removed from the protective pouch, Habitrol systems should be applied promptly since nicotine is volatile and the system may lose strength.

CAUTION: Federal law prohibits dispensing without prescription.

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AT THESE PRICES, WHO NEEDS THE ALPS?

S. ski resorts lure foreigners with deals and homey touches

Peter S. Smith usually spends his winter vacation schussing the Swiss Alps. But this season, the London science teacher flew 5,500 miles to ski in Breckenridge, Colo. The skiing, he says, is "brilliant. The people are friendly, and I like the country music." Will he return? "Definitely." Those words are as welcome as fresh powder to U.S. ski resorts. Some 80% of the world's skiers live outside the U.S.,

marketing organization for 16 U.S. ski resorts, estimates that foreign skiers represent some 3% of U.S. skiers, up from 1% five years ago.

No wonder Benkelman is rolling out the welcome mat for foreign skiers. He just spent \$5 million to buy and improve Breckenridge Spa, mainly for the benefit of the British, who now contribute 40% of his revenues. The spa offers a currency exchange, English newspapers, and

tage Cream of Wheat advertising placards. "They all say: 'Isn't this lovely!'" reports owner Maureen Nicholls.

It's lovely for nearby Breckenridge Ski Corp., which began wooing British skiers about five years ago, after the tumble in energy prices all but wiped out skiers from the oil patch. Now, 8% of its business comes from foreigners. It's aiming for 10%.

GERMAN JUNKET. Ski the Summit, a marketing consortium that includes Breckenridge, Keystone, Copper Mountain, and Arapahoe Basin, zeroed in on the foreign market three years ago. It expects 23,000 foreign skiers, mostly British, this winter, representing about 7% of Summit County's ski business. Ski the Summit's next target is the Germans: 100 German TV and print reporters will hit the slopes this season, courtesy of the consortium.

Most foreign skiers go West, but Eastern resorts are attracting them, too. "They leave London on a morning flight, and they are here in time for their evening American meal," says Richard Blowers, a tour guide at Thomson Holidays PLC, which packages ski vacations at Killington, Vt.

The West should remain the prime draw, though—while the dollar stays low. A ski package that includes a direct flight from London's Gatwick Airport to Denver, local transportation, and two weeks' lodging now goes for less than \$1,000, plus lift tickets.

Prices like that should appeal to more than the Brits, of course. Breckenridge Ski has started advertising in Japan. Not coincidentally, Breckenridge, like several other U.S. ski areas, is owned by Japanese interests. Park City, Utah, already has trail signs in Japanese. And to build name recognition, New York's Hunter Mountain licensed its name and

the names of its runs, such as "Wall Street," to a resort outside Tokyo. Japanese skiers who come to Hunter will find a hillside sushi bar.

Resort operators are discovering, though, that the Japanese expect them to take customer service seriously. "They want to know if we have small enough ski boots and Japanese-speaking ski instructors," says Lucy Kay, Breckenridge Ski's marketing director.

It may not be time for American resorts to dump the hot buttered rum, but they should start warming the *sake*.

By Sandra D. Atchison in Breckenridge, Colo., with Evan I. Schwartz in New York and Gregory Sandler in Boston



AND THE LONDON TELEGRAPH AT BRECKENRIDGE: THE SPA ALSO OFFERS A CURRENCY EXCHANGE

more than ever, those foreigners are a prize market for U.S. resorts. Business has been flat for a decade, as yesterday's hot dogs spend once disposable income on children, hearth, and home.

Foreign vacationers, in fact, do better than just replace the American skiers. They spend twice as much and stay a night instead of a week," explains William D. Benkelman, a partner in Breckenridge Spa, an upscale lodge. Skiers from overseas sample everything from shopping to sleigh rides, spending an average of nearly \$250 per day at the resorts, compared with \$150 for domestic skiers. And more are coming every year. SkiUSA, an international

afternoon repast with tea from Harrods, cucumber sandwiches, and scones.

Everything in town seems designed to keep the Brits in a spending mood. At the 111-year-old Gold Pan bar, folks fresh off the plane from London sip Coors with lime juice, shout requests to Sam the Singing Cowboy, and videotape each other kissing a mounted buffalo head. Obliging Yanks even stage impromptu fisticuffs for the visitors. "We fake fights for them," admits David Samples, a dishwasher at a local restaurant. "Sometimes they get up and run away." The British pop into Sundance Hats for \$73.95 cowboy headgear or Quandary Antiques for quilts and vin-

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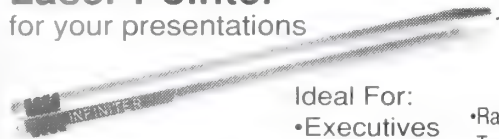
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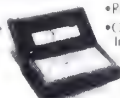
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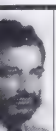
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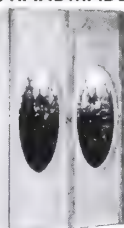
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The average laptop computer user who clicks away at memos and simple spreadsheets on commuter trains and in hotel rooms can get along just fine with an econobox: inexpensive and reliable yet limited in performance and amenities. But some professionals need more sophisticated computing power on the road. To accommodate them, manufacturers are now offering a wide array of totable machines with features of the brawniest desktops.

The super laptops use the fastest microprocessors for hefty computing prowess, massive storage devices to hold libraries of information, and the latest display technology for eye-catching color and razor-sharp clarity. Sharp and Toshiba, for example, offer "active-matrix" screens that eliminate the blurring of conventional liquid crystal display (LCD). And they are making this expensive technology—originally developed for defense purposes—relatively affordable.

With prices ranging from \$5,000 to \$12,000—vs. \$3,000 for the average notebook machine—the super laptops are for serious number-crunchers, people who design airplanes, or those who balance spreadsheets hundreds of columns long. But industry analysts predict that many features of the super machines will eventually filter down to the more mainstream market.

As with the top performance cars, what gives super laptops their oomph can be found under the hood. Most of the popular, economical IBM-compatible laptops use an



Intel 80386SX microprocessor, a less capable version of the 386DX chip. But the high-end portables don't skimp. Sharp's Colorstar PC-850, for example, contains the same 386DX microprocessor found in most desktop computers. That means it can run such complex programs as Microsoft's popular Windows faster than a 386SX machine. Windows translates difficult computer commands into easy-to-use pictures, or icons. The creation of these icons makes tasks simpler for users but requires lots of extra computing power.

Some of the super laptops use the even more powerful 80486DX chip. This is the same "brain" found in machines that control huge, immovable networks. IBM was first with a 486DX totable when it began selling the Personal System/2 Model P75 in November, 1990. Compaq followed last October with the Portable 486c, which does such complicated tasks as computer-aided design.

LIVING COLOR. If you do plan on controlling computer networks from afar or designing the next jumbo jet, a 486SX-based unit might be a better bet. This chip is a slowed-down version of the 486DX, but it is still a considerable improvement over 386 chips in accomplishing such tasks as searching databases that contain thousands of files.

Laptop leader Toshiba markets one machine in this class: the lightweight, battery-powered T4400SX. But it has an older, monochromatic screen. NEC Technologies of

other hand, has been selling since last November a SX-equipped laptop with active-matrix color screen the pinnacle of its Pro line of laptop models.

Prospeed 486SX/C, which weighs nearly 17 pounds, is geared toward users who don't mind trading extra weight for performance.

Color capability is surely one of the most impressive features of the new super laptops. Like the most expensive desktop monitors, the latest generation of portable active-matrix screens can show more than 256 colors simultaneously to produce pictures and graphics of photographic quality. What's more, since active-matrix screens use microscopic electronics to sharpen each individual dot of display, users avoid the strain that's common with conventional monitors.

That's a big advantage for E. Rogenfeld, director of labor relations and immigration for Walt Disney. The active-matrix screen on his Toshiba portable helps him distinguish different colored angles that link clauses in page documents. He appreciates the clarity during these frequent occasions when he has to work in front of the screen for hours. "The resolution is incredible," he says. "It's far superior to a desktop monitor."

Toshiba is ahead of its competitors in the use of active-matrix screens. On Jan. 20, it introduced a new T6400 line that marries the advanced color technology with a 486 chip. Sharp's Colorstar PCs, by contrast, also offer active-matrix screens, but they use an older, less powerful microprocessor.

ROOM FOR MORE. Another advantage of the super laptops is their enormous storage capacity. Large internal disk drives enable the machines to run powerful software programs, including those with sophisticated multimedia functions that integrate text, music, speech, and video.

The new 386 and 486 models typically can store 120 megabytes, or 120 million characters,

of information. That's triple the capacity of most laptop and notebook machines. And with software programs growing ever larger, some makers are looking ahead. Compaq's Portable 486c and Toshiba's T6400DX, for example, go to about 200 megabytes, and IBM's P75 creation tops them all at 400 megabytes.

Many of these souped-up laptops have room to add

slots for smaller boards, such as a modem that allows the computer to communicate over phone lines.

As remarkable as these machines are, they have drawbacks. First, they're much heavier than conventional laptops, which weigh 8 to 10 pounds. And they're real clunkers compared with notebooks, which measure around 8½ by 11 inches and weigh 7 pounds or less.

costs \$11,334—and it doesn't come with an active-matrix color screen. At \$5,600, Toshiba's T4400SX is the least expensive of the lot, but it lacks color and comes with only an 80-megabyte hard drive.

Of course, if you're willing to spend around \$5,000, there are all kinds of interesting choices that don't quite qualify as super laptops. Sharp's PC-6881, due out in April, will offer an active-matrix color



THE SUPER LAPTOPS AT A GLANCE

Model/ List price	Microprocessor	Hard drive (Megabytes)	Weight (Pounds)	Comments
IBM PS/2 MODEL P75 \$11,334	486DX	400	22.1	One of the oldest supers; has the largest hard drive, but no color
COMPAQ PORTABLE 486C \$11,000	486DX	210	17.6	Has two full-size expansion slots, like a desktop; 120 megabyte is \$1,000 less
SHARP COLORSTAR PC-B501 \$10,000	386DX	100	15.3	Uses an older microprocessor, but has the sharpest active matrix screen
TOSHIBA T6400DXC \$9,750	486DX	200	12.9	The latest super totable; models with 486SX chip coming soon
NEC PROSPEED 486SX/C \$9,000	486SX	120	16.8	Has one full-size expansion slot and an active-matrix color screen
TOSHIBA T4400SX \$5,600	486SX	80	7.25	Lightweight and battery-powered, but uses older monochromatic screens

even more features. Compaq's totable PC offers two full-size expansion slots that can accommodate circuit boards for accessories and upgrades. A Compaq owner, for example, might add a CD-ROM drive—an essential multimedia-computer component that typically stores 600 megabytes of information.

IBM's P75 offers two full-size slots, plus two half-size

You can also largely forget about using them on airplanes and trains. Except for Toshiba's monochromatic T4400, all need an AC outlet. That's because rechargeable batteries don't yet exist that are powerful enough to run top-of-the-line microprocessors and active-matrix color screens.

The only other obstacle to obtaining one of these powerhouses is price. IBM's P75

screen in a notebook-size package. The sacrifice here is microprocessor speed. And Apple's new Powerbook 170 is a \$4,600, 40-megabyte laptop that features the same brain as the Macintosh IIfx desktop. Clearly, computer makers see laptops as the way to go. So it shouldn't be hard to find a machine to meet your needs, no matter how complex they are.

Paul Eng

Photography

TOP PICKS AMONG THE NEW CLICKS

With miniaturized electronics making complex 35mm cameras lightweight and pocket-sized, Nikon's newest model may startle you. It's as bulky and heavy as a brick, sports a gaudy orange stripe, and costs about \$6,000. Think the contraption and its designers should be tossed into the sea? No problem. The Nikonos RS works underwater.

Until now, scuba divers and snorkelers had to use clumsy, hard-to-focus special cameras or ones enclosed in waterproof housings. But the Nikonos, with its oversize buttons and controls, works just like any single-lens reflex (SLR) to 320 feet down. For photographers without such deep pockets, Minolta's Weathermatic (\$300), a compact point-and-shoot, will take



NIKON'S RS IS HANDY UNDERWATER. CANON'S RC-250 PHOTOS PLAY BACK ON TV. KYOCERA'S CONTAX T2 IS SLIM, LIGHT, AND STURDY

pictures down to 100 feet.

Other makers have intriguing new models for still photographers who prefer to keep their feet on dry land. Take Kyocera's Contax T2. A slim point-and-shoot named European Compact Camera of the Year, it boasts a durable titanium body and weighs just 1.6 ounces. You can switch from auto-focus to manual, guided by a viewfinder indica-

tor that lights at pinpoint focus. That capability, along with the titanium and a Carl Zeiss Sonnar 38mm f2.8 lens, runs the price up to \$1,000.

LITTLE SURE SHOT. For a broader market, Ricoh is said to be ready to unveil a point-and-shoot model barely larger than a cigarette pack—which the maker would promote as the smallest automatic camera with a zoom lens. It's a

modest zoom, from 35mm to 60mm, but it's suitable for most snapshooters. Price about \$300.

Canon also focused on zooming in its new EOS Elan (\$580), an update of the autofocus SLR introduced in 1990. It now boasts a built-in zoom flash that adjusts the angle of light to the area covered by the zoom lens. For tricky lighting situations, you can set exposure and shutter speed with an optional barcode scanner. It accepts data from bar codes under sample photos in a booklet so the camera will produce a similar shot. Another innovation: soundproofed motor-drive mechanism almost completely silences the disruptive click-whirr noise.

Canon has also accessorized its RC-250 electronic camera (\$799), which can record still pictures on a 2-inch floppy disk and play them back on any TV set. For \$400, you get a 3-inch color monitor and 3-hour battery pack. That lets you take up to 800 pictures and view them immediately, like Polaroids, for instant gratification. *Don Dun*

Smart Money

THESE SAVINGS BONDS AREN'T KIDS' STUFF

They're purchased at face value and make semiannual payments of 6% a year. The interest is sent by electronic funds transfer directly to the bondholder's bank account.

CURRENT LOW-RISK YIELDS

U.S. TREASURY NOTE (5-YEAR)	6.4%
SERIES HH SAVINGS BOND	6.0
MONEY-MARKET MUTUAL FUND	4.1*
BANK CERTIFICATE OF DEPOSIT (1-YEAR)	4.1*
U.S. TREASURY BILL (6-MONTH)	4.0

*Average

DATA BW

And unlike bank interest, income from savings bonds is exempt from state and local taxes.

The bonds have a 10-year life and can be extended for another 10 years. They are issued in denominations of \$500, \$1,000, \$5,000, and \$10,000. Unlike Series EE bonds, which pay out a variable rate of interest, the rate on Series HH bonds doesn't change. However, if interest rates jump, you can cash in these bonds without penalty or loss of principal and look for higher returns elsewhere.

Series HH are available through Federal Reserve Banks and their branches.

You can purchase them only with Series EE bonds.

If you have a maturing CD and no EE bonds, there's still a way to get HHs. Frank Riley, the Treasury's New York district director for U.S. Savings Bonds, says savers can purchase, say, \$10,000 in EE bonds (that's \$20,000 face value) and convert them to \$10,000 in HH bonds six months from now—the minimum amount of time EE must be held. The saver will only earn a 4.16% annual interest rate for the six-month period, but that's no worse than what's available at many banks and thrifts.

The only limitation to the savings program is that an individual must restrict purchases of EE bonds to \$15,000 (\$30,000 face value) per year. Couples can invest \$15,000 each. There is, however, no limit on the EE holdings you can exchange for Series HH bonds. *Jeff Laderman*

When their certificates of deposit mature, savers have some unappealing choices: either roll over the CDs at 4% or put the money into stocks, bonds, or mutual funds—where the principal is at risk. The situation is particularly worrisome for savers who live off interest income. They need all the yield they can get but can't afford to take risks.

Here's a prescription for CD shock that you're not likely to hear from a broker or banker: U.S. savings bonds. No, not the kind that people give as gifts for newlyweds and newborns—persons in need of long-term savings but not current income. Those are the Series EE sort, which are bought at half their face value and mature in 12 years to full value.

The lesser-known Series HH bonds make attractive vehicles for savers who want regular interest payments.

Dining

EATING IN JAPAN—FOR LESS THAN AN EMPEROR'S RANSOM

Now people back from Tokyo with tales of outlandish prices? You may have eaten at a restaurant so exclusive it has no sign. Hidden in a back street in the Nakano district, it requires entry to members and no guests. The proprietor serves only one group of seven each evening, plying them with the choicest seasonal food, *Matsuzaka* beef (a Japanese specialty), and obnoxious mountain vegetables, served on centuries-old plates. Price per head: \$300, ask you.

But you needn't spend an emperor's ransom for a delicious dinner in delightful surroundings in Tokyo. And you

can't limit your menu to raw fish. Take *Tanaka*, a cozy establishment near Yasukuni Shrine. Its kimono-clad servers serve a wide array of typical Japanese dishes freshly prepared with the finest ingredients. Four of us feasted on hors d'oeuvres, broiled, and deep-fried fish, tofu steak, *toritori* (skewered chicken chunks), and seasoned eggplant, washed down with plenty of beer and cold *sake*. Total tab was \$235: cheap, but good value by Tokyo standards. Owner Hiroshi Kawano speaks a bit of English and can help with an order. Ask for a floor table.

TRY. One of Tokyo's lesser-known culinary gems is the lovely *aya* in the old geisha quarter of Kagurazaka. Don't miss the specialty—*tsukuni*, a panful of thick slices, chicken, shellfish, and vegetables cooked in a broth at your table. For incredible \$12, you'll have plenty to eat. But also split an

order of *Torijaya's* broiled *agenasu*, half a large eggplant spread with a concoction of red *miso* (soybean paste) and ground meat.

While there's plenty in Japanese cuisine to make one squeamish—raw horse meat or squid marinated in its own innards—most Westerners take to a dish called *kushiyage*, or skewered morsels of fish, meat, and vegetables deep-fried in front of you. Try *Kushinoya* on Aoyama Dori near Omotesando, where the basic course of 15 different skewers goes for \$37.

Japanese think of *sukiyaki* as something to eat at home. But that won't prevent you from finding superb versions



BW'S NEFF (LEFT) SEEKS OUT EXOTIC FARE AT REASONABLE PRICES

downtown area, Yushima, to *Echikatsu*, an ancient establishment dripping with traditional ambience as luscious as the *sukiyaki* broth. You can choose courses from \$50 to \$83 per person, differing mainly in the quality of the meat. For Tokyo, it's a steal.

No trip to Japan would be complete without sampling sushi. The Japanese may be more passionate about sushi than any other comestible. And almost everyone has an untoppable spot, some of which could get your expense account suspended. But for quality and selection at affordable prices, it's hard to beat *Isosei* in suburban Jiyugaoka. Two big eaters and drinkers would have trouble spending more than about \$130.

FETTUCCINE? Want to sample other Asian cuisines? One smart but offbeat choice would be *Khumbila*, which serves Nepalese and Tibetan delicacies in an informal basement setting in Hiroo. You can order set courses for \$20 to \$40, but it's more fun to choose on your own. Don't miss the *momoko*, or Tibetan pork dumplings, and the mutton or chicken curry. Also in Hiroo is one of Tokyo's loveliest Thai restaurants, the *Gold Leaf*. Its set lunches begin at about \$12.



A TASTE OF TOKYO

Restaurant	Cuisine	Dinner for two*	Phone
ECHIKATSU	Japanese	\$150	3811-5293
GOLD LEAF	Thai	110	3447-1212
IL BOCCALONE	Italian	120	3449-1430
ISOSEI	Japanese (sushi)	120	3718-1132
ISSHIN	Japanese	50**	3401-7991
KHUMBILA	Nepalese	80	3440-2638
KUSHINOYA	Japanese	85	3499-1194
TAMURA	Japanese	110	3262-7379
TORIJAYA	Japanese	40	3260-6591

*Includes one drink per person

**Lunch

DATA: BW

of the braised-meat-and-vegetable dish in restaurants. For lunch, try it in *sukiyakiju* (lunchbox) form for \$21 at *Isshin*, on Omotesando just above designer *Issey Miyake's* Pleats boutique. For dinner, venture to the funky

If you start longing for Western food, Tokyo boasts branches of such French culinary icons as *Maxim's* and *La Tour d'Argent*, plus at least a dozen more French restaurants that could hold their own anywhere. But why not jump aboard the Italian bandwagon rolling through the city? Try one of the favorites, *Il Boccalone*. A short walk from *Ebisu Station* in western Tokyo, this rustic eatery with wooden floors and tables supplements its many regular dishes with specials, such as fettuccine in crab cream sauce. It also offers a rich collection of freshly baked desserts. Dinner for one is about \$55 without wine.

As they often say at the beginning of a meal in Japan, *Itadakimasu!* *Bob Neff*

Worth Noting

■ **LEGAL LORE.** *Your Rights in the Workplace* (Nolo Press, \$16) can help you decide whether to see a lawyer if you think you've been fired without cause, faced discrimination or harassment, or otherwise been treated unfairly.

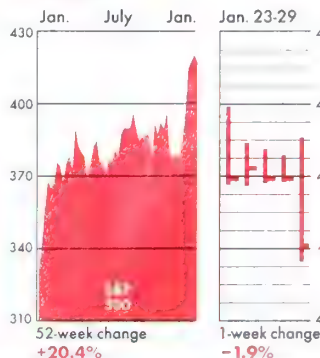
■ **SUMMER SPORTS.** The Summer Olympics in Barcelona don't start till July 25, but tickets are oversubscribed for some events, says Olson Travelworld (800 874-1992), which lists availabilities and prices. Check tour packages, though. They may have seats for "sold out" events.

Investment Figures of the Week

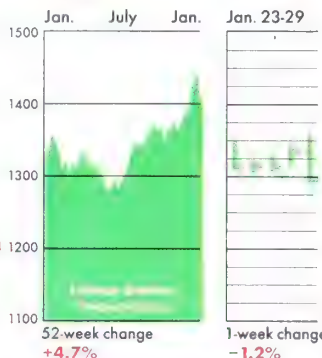
COMMENTARY

Wall Street is no fan of Washington. The Dow industrials climbed to nearly 3300 on Jan. 29, cheering some companies' good profit reports. But then Federal Reserve Chairman Alan Greenspan said the economy doesn't need anymore monetary easing and warned Congress that a big economic recovery package could prove inflationary. That sent the bond market tumbling, and the stock market followed suit. Long-term interest rates are now higher than before the last cut in the discount rate.

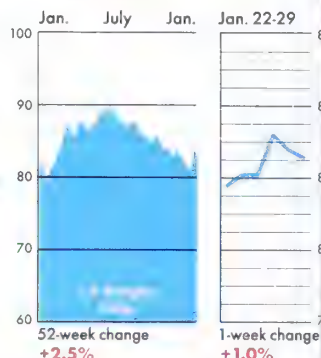
STOCKS



BONDS



THE DOLLAR



MARKET ANALYSIS

U. S. STOCKS

	Latest	% change Week	% change 52-week
DOW JONES INDUSTRIALS	3225.0	-0.9	18.9
BIG COMPANIES (Russell 1000)	218.0	-1.6	22.9
SMALL COMPANIES (Russell 2000)	203.9	0.1	43.6
ALL COMPANIES (Russell 3000)	232.8	-1.5	24.0

FOREIGN STOCKS

	Latest	% change Week	% change 52-week
LONDON (FINANCIAL TIMES 100)	2546.5	1.0	18.3
TOKYO (NIKKEI INDEX)	21,362.3	-0.8	-8.7
TORONTO (TSE COMPOSITE)	3598.6	-1.1	10.8

FUNDAMENTALS

	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	3.92%	3.84%	6.3
30-YEAR TREASURY BOND YIELD	7.76%	7.63%	8.2
S&P 500 DIVIDEND YIELD	2.94%	3.01%	3.6
S&P 500 PRICE/EARNINGS RATIO	23.5	22.6	15.0

TECHNICAL INDICATORS

	Latest	Week ago	Reading
S&P 500 26-week moving average	392.4	391.2	Positive
Stocks above 26-week moving average	71.4%	69.4%	Neutral
Speculative sentiment: Put/call ratio	0.37	0.34	Neutral
Insider sentiment: Vickers sell/buy ratio	1.51	1.62	Positive

INDUSTRY GROUPS

FOUR-WEEK LEADERS

	% change 4-week	% change 52-week
1 MACHINE TOOLS	24.4	38.1
2 SEMICONDUCTORS	22.8	45.2
3 LEISURE TIME	20.9	46.9
4 AUTOMOBILES	19.8	13.1
5 ENTERTAINMENT	18.5	27.5

FOUR-WEEK LAGGARDS

	% change 4-week	% change 52-week
1 MEDICAL PRODUCTS AND SUPPLIES	-9.4	40.8
2 DRUGS	-7.9	45.2
3 DIVERSIFIED HEALTH CARE	-7.6	31.6
4 SOFT DRINKS	-7.0	41.3
5 RAILROADS	-5.4	41.0

Strongest stock in group

	% change 4-week	% change 52-week	Price
ACME CLEVELAND	33.3	100.0	9 1/2
INTEL	28.5	42.3	62 1/2
OUTBOARD MARINE	31.3	58.6	22
CHRYSLER	31.5	16.3	15 1/2
WALT DISNEY	23.2	39.1	141 1/2

Weakest stock in group

	% change 4-week	% change 52-week	Price
BIOMET	-21.0	115.4	24 1/2
PFIZER	-15.0	67.0	72 1/2
ABBOTT LABORATORIES	-9.1	39.4	61 1/2
COCA-COLA	-9.7	53.7	73 3/4
SANTA FE PACIFIC	-11.7	100.0	12 1/2

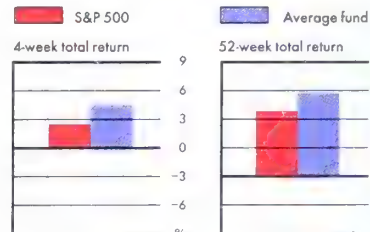
MUTUAL FUNDS

LEADERS

	Four-week total return	%
1 PRUDENT SPECULATOR LEVERAGED	18.1	
2 FIDELITY SELECT ELECTRONICS	17.9	
3 FREEDOM DISCOVERY	17.7	
52-week total return		%
1 OPPENHEIMER GLOBAL BIO-TECH	127.8	
2 AMERICAN HERITAGE	115.3	
3 MFS LIFETIME EMERGING GROWTH	91.4	

LAGGARDS

	Four-week total return	%
1 PRINCIPAL PRES. DIVIDEND ACHIEVERS	-5.7	
2 NATIONAL INDUSTRIES	-5.1	
3 DFA JAPANESE SMALL COMPANY	-3.9	
52-week total return		%
1 STRATEGIC GOLD/MINERALS	-19.2	
2 FIDELITY SELECT ENERGY SERVICE	-16.3	
3 STRATEGIC INVESTMENTS	-12.4	



RELATIVE PORTFOLIOS

Dollar amounts represent the present value of \$10,000 invested one year ago in each portfolio

Percentages indicate five-day total returns

U. S. stocks

\$12,647

+0.56%

Treasury bonds

\$11,439

-1.44%

Foreign stocks

\$11,339

-0.63%

Money market fund

\$10,499

+0.08%

Gold

\$9,539

-0.22%

Values on this page are as of market close Wednesday, Jan. 29, 1992, unless otherwise indicated. Industry groups include S&P 500 companies only; performance and share prices are as of market close.

Jan. 28. Mutual fund returns are as of Jan. 24. Relative portfolios are valued as of Jan. 27. A detailed explanation of this page is available on request.

Index to Companies

Index gives the starting page for a story or feature with a significant reference to a company. Most companies are indexed under their own names. Companies listed only in tables are not included.

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DEAR JAPAN,

Our relations are deteriorating so rapidly that economic nationalism threatens the prosperity of both our countries. Before we plunge into protectionism and retaliation, it is time to recognize our mutual dependence and to negotiate our legitimate grievances.

First, we must tone down the rhetoric on both sides. You complain, correctly sometimes, of Japan-bashing by Americans. But there is a lot of America-bashing coming from Japan right now. We regularly see America caricatured as a land of lazy illiterates producing nothing but shoddy products. Yet the U.S. is the world's leading exporter, its productivity higher than anyone else's, its universities the world's best. Shoddy products? Does that include Microsoft, Intel, Merck, Motorola, IBM, or Boeing, to name but a few?

Perhaps the most sensitive part of America-bashing concerns race. Our histories, in this respect, are utterly different: You are a homogeneous people in a traditionally closed society; we spring from numerous ethnic and racial backgrounds. Most Americans see enormous strength in our diversity. It is who we are. Yet we are frequently told by many Japanese—from former Prime Minister Yasuhiro Nakasone on down—that our problem is too many blacks or Hispanics. Or sometimes, code words are used—such as “lazy” or “illiterate.” Apologies quickly follow, but the damage is lasting. You often say Americans don't understand Japan. Perhaps. But clearly, the reverse is true as well.

The second step is to recognize how much the world is changing. At the end of World War II, America demonstrated unprecedented generosity toward a vanquished enemy. It helped rebuild your country. It opened its markets for your products and allowed your markets to remain closed while you rebuilt your industries. America spent trillions of dollars on defense, much of it to protect Japan from any Soviet threat—allowing you to concentrate all of your resources and energy on commercial activities. It was America that chiefly paid the price to end the Soviet threat.

Now the cold war is over, and, yes, a new world order is unfolding. America's role must change. No longer can we be the enforcer of Pax Americana and the dominant economic power. Instead, we must become a cooperative partner in an integrated global economy in which no country is preeminent. And as you rightly point out, we must also deal with long-neglected domestic problems.

But Japan must change, too. In today's integrated global economy, it is untenable for any one country to run a huge trade surplus with virtually every other nation in the world. Besides, such mercantilist goals are unworthy of the great power Japan should be: You have a bigger role to play than just exporting cars and VCRs. The world needs your presence in diplomacy, foreign aid, and expansion of world markets. And, like America, Japan has its own domestic needs—from improved housing to a cleaner environment.

We recognize that changing Japan's role in the world will be difficult. It's not as simple as repealing quotas or tariffs. You have few left. But it is a matter of changing attitudes,

even changing culture. Many of the practices outsiders see as keeping them out seem rooted in Japanese traditions. The *keiretsu* form of corporate cooperation, for example, may breed great efficiency and teamwork, but it also excludes foreigners. The tradition of doing business with longstanding partners may build loyal relationships, but newcomers, however innovative, are not welcome. These attitudes have made Japan an insular society—a difficult role to sustain in an increasingly global world. For all of America's faults, it has been remarkably open—to people, ideas, and products.

Fundamental attitudes can't easily be changed. But you are right to ask America to make basic changes, too—for example, to change from a consumer culture to a more investment-oriented society. Moreover, we believe fundamental changes in Japan are in your interest. Your people deserve a higher standard of living—in better housing, more leisure time, and less expensive consumer products.

It is time for both nations to stop blaming each other and get on with fundamental change in a changed world. Let the process begin.

DEAR AMERICA,

We seem more dispirited than at any time since the Great Depression. Yes, the recession is enervating. Yes, the fall of Soviet communism creates a public-policy vacuum. And yes, our political system is failing us. But something else is happening. In the most un-American way, we seem paralyzed to do anything about our manifold problems. Instead, we are seeking scapegoats—most recently, Japan. It is a dangerous game. If you think you have economic difficulties now, try more protectionism.

We have some reason to be angry at the Japanese. Their markets are just not as open as ours—to investment or products. And their comments about the U.S. are often grossly misleading. But some sting, because they have a ring of truth. Many of our schools are failing. Crime and drugs are rampant. Our budget deficit is out of control. Corporate managers, pushed by a short-sighted financial system, are often blind to anything but the next quarter's profits. We demand government entitlements, but we refuse to pay for them. . . . You know the litany.

What to do? For starters, accept our new role in the world. With the end of the cold war, we need not be the world's policeman. Understand that national security no longer means ICBMs but rather a strong economy. Such attitudes should not degenerate into isolationism but should enable us to focus on world trade and domestic problems.

This, in many ways, is a defining moment in American history. For one thing, the former Soviet republics, Eastern Europe, and the market-oriented nations of Latin America are all promising opportunities. For another, we have a substantial peace dividend coming to us—as much as \$30 billion in reduced military expenditures over the next decade. We can and should debate how the money should be used—for tax cuts, a reduced deficit, or social spending.

This magazine prefers two solutions: tax cuts that spur

Continued on page 1.

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Such as a Four Cam 32-valve V8
verplant that places 250 horse-

power at your beck and call. Or the
classic independent double-wishbone
suspension that, in turn, is coupled to
a technically advanced anti-lock disc
brake system.

Sounds a lot like a muscle car,

doesn't it. Yet the Lexus Coupe is far
from being muscle-bound.

The leather seats, for example,
conform to you, rather than the other
way around. The climate control sys-
tem will automatically maintain the
cabin temperature to keep everything
from your toes to your nose in com-
plete comfort. And to accommodate
your ears, a high-output, seven-speaker
audio system surrounds you with
sound few concert halls can duplicate.

Why know all this?

Because once you drive the
Lexus Coupe, you must be prepared
to answer a lot of questions. Auto-
graphs, mind you, are optional.


LEXUS
The Relentless Pursuit Of Perfection.



In short, re-entry could not be more
plex.

More than ever, returning issuers face
uncertainty in the marketplace. Today's
investors are increasingly sophisticated and
knowledgeable. Their decision to invest—or
not—can make or break an offering.

To be successful, issuers must be able
to access every market and every investor—
institutional and individual—the world over.
Lehman provides detailed, comprehensive informa-
tion along the way.

THE MARKET IS COMPLEX. RETURNING DOESN'T HAVE TO BE.

Lehman Brothers works with clients
to remove much of the uncertainty associated
with an offering.

Over the past few months, Lehman
Brothers has lead-managed over \$1.7 billion
in new equity. Helping domestic and inter-
national clients in categories as diverse as
pharmaceuticals, high technology, banking

and retailing successfully return to market.

WHY LEHMAN BROTHERS?

Lehman Brothers is a leader in raising
equity capital for its clients. Upward of \$50
billion over the past 5 years, according to
Securities Data Corporation.

What is far more important than the
dollar figure, however, is the depth of experi-
ence represented by that figure. For it is com-
posed of every type of offering from every
imaginable industry sector.

And while no one can predict what the
market will do tomorrow, Lehman Brothers
has displayed an unusual ability to foresee
opportunity and to move an offering along in
a very timely fashion.

Precisely the sort of vision and timing
that's necessary when venturing across eight-
lane highways.

If you are considering a move into the
equities market, we'd like to be involved.

LEHMAN BROTHERS



Rx FOR INVESTORS: HEALTH CARE LED THE MUTUAL-FUND PACK AGAIN IN 1991, RISING 78.3%—WITH MORE GAINS EXPECTED IN 1992

Cover Story

74 AND THE WINNERS ARE . . .

Talk about cash flow. A record \$7.4 billion poured into equity mutual funds in December, capping a yearlong deluge of dollars. The buying binge isn't over, either—although investors may soon discover that it won't be easy to match 1991's spectacular returns in 1992. Enter BUSINESS WEEK's Mutual Fund Scoreboard, which this year details 760 funds and singles out the top performers

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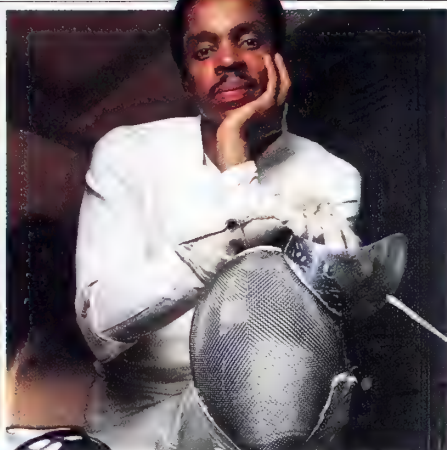
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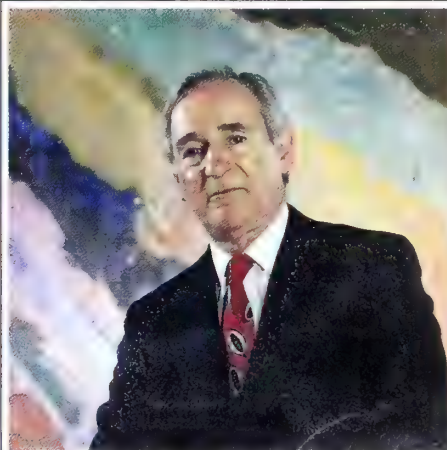
Why Bush is still groping for a domestic policy



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The joint venture of British Airways and Aeroflot is near the runway

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Its ongoing problems raise questions about its leadership

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Barbie still reigns, but Mattel must widen its appeal with the other sex

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Now, critics are blaming Warren Buffett for a series of mistakes

ONE SOLID HOMEBUILDER
Kaufman & Broad cut prices, hiked advertising—and profited in a slump

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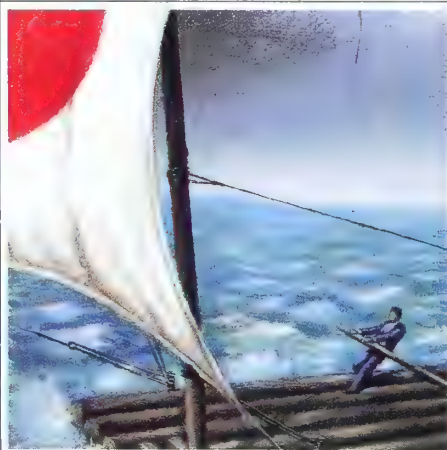
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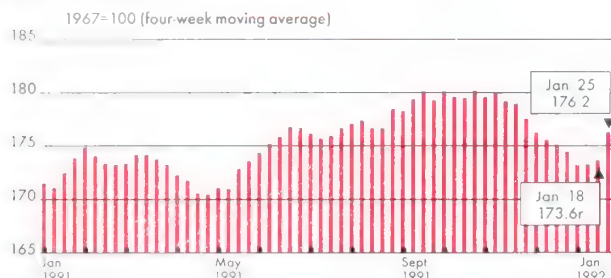
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New Germany, new ball game
How not to build a recovery

BusinessWeek Index

PRODUCTION

Change from last week: 1.5%
Change from last year: 1.4%

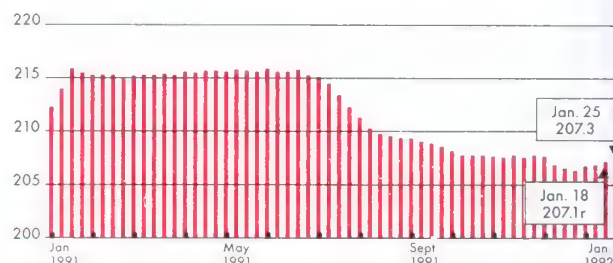


The production index rose sharply in the week ended Jan. 25. The four-week average had been held down, in part, by past holiday-depressed readings. In the latest week, production of autos, trucks, and coal rose, as did rail-freight traffic. Steel, electric power, and crude-oil refining declined. Lumber output was unchanged, and paper and paperboard production were unavailable. Before calculation of the four-week average, the index rose to 179.5, from a revised 178.6.

BW production index copyright 1992 by McGraw-Hill Inc.

LEADING

Change from last week: 0.1%
Change from last year: -3.8%



The leading index continued to gain ground in the week ended Jan. 25. Failures of large businesses fell, the rate of decline in prices of industrial materials slowed, and the M2 measure of the money supply grew faster. On the downside, stock prices dropped, bond rates rose, initial claims for jobless benefits increased, and real estate loans fell at a faster rate. Before calculation of the four-week average, the index rose to 207.5, from a revised 207.0 the week before.

Leading index copyright 1992 by Center for International Business Cycle Research

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
STEEL (2/1) thous. of net tons	1,700	1,711#	9.8
AUTOS (2/1) units	111,873	106,879r#	-5.8
TRUCKS (2/1) units	80,874	71,830r#	45.8
ELECTRIC POWER (2/1) millions of kilowatt-hours	57,267	60,031#	-0.6
CRUDE-OIL REFINING (2/1) thous. of bbl./day	12,426	12,642#	-2.6
COAL (1/25) thous. of net tons	19,692#	18,826	-0.8
PAPERBOARD (1/25) thous. of tons	NA#	800.4r	NA
PAPER (1/25) thous. of tons	NA#	772.0r	NA
LUMBER (1/25) millions of ft.	491.7#	495.1	2.2
RAIL FREIGHT (1/25) billions of ton-miles	20.6#	20.3	8.4

Sources: American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Paper Institute, WWPA¹, SFPA², Association of American Railroads

FOREIGN EXCHANGE

	Latest week	Week ago	Year ago
JAPANESE YEN (2/5)	126	125	128
GERMAN MARK (2/5)	1.59	1.59	1.46
BRITISH POUND (2/5)	1.81	1.81	1.99
FRENCH FRANC (2/5)	5.41	5.41	4.97
CANADIAN DOLLAR (2/5)	1.18	1.17	1.16
SWISS FRANC (2/5)	1.41	1.42	1.25
MEXICAN PESO (2/5)	3.049	3.050	2,961

Sources: Major New York banks. Currencies expressed in units per U. S. dollar, except for British pound expressed in dollars

PRICES

	Latest week	Week ago	% Change year ago
GOLD (2/5) \$/troy oz.	354.300	354.850	-1.8
STEEL SCRAP (2/4) #1 heavy, \$/ton	89.50	89.50	-13.9
FOODSTUFFS (2/3) index, 1967=100	204.2	205.8	-2.8
COPPER (2/1) ¢/lb.	102.8	101.4	-6.7
ALUMINUM (2/1) ¢/lb.	57.0	56.0	-15.6
WHEAT (2/1) #2 hard, \$/bu.	4.55	4.30	65.5
COTTON (2/1) strict low middling 1-1/16 in., ¢/lb	49.38	51.23	-31.7

Sources: London Wednesday final setting, Chicago market, Commodity Research Bureau, Metals Week, Kansas City market, Memphis market.

LEADING INDICATORS

	Latest week	Week ago	% Change year ago
STOCK PRICES (1/31) S&P 500	412.14	415.51	21.2
CORPORATE BOND YIELD, Aaa (1/31)	8.25%	8.22%	-8.3
INDUSTRIAL MATERIALS PRICES (1/31)	94.5	94.1	-2.7
BUSINESS FAILURES (1/24)	361	389	8.4
REAL ESTATE LOANS (1/22) billions	\$401.7	\$402.6	0.0
MONEY SUPPLY, M2 (1/20) billions	\$3,418.4	\$3,405.6r	2.3
INITIAL CLAIMS, UNEMPLOYMENT (1/18) thous	464	440r	-4.1

Sources: Standard & Poor's, Moody's, Journal of Commerce (index: 1980=100), Dun & Bradstreet (failures of large companies), Federal Reserve Board, Labor Dept. CIBCR seasonally adjusted data on business failures and real estate loans

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Change year ago
CONSTR. SPENDING (Dec.) annual rate, billions	\$407.4	\$408.4r	-3.3
PERSONAL INCOME (Dec.) annual rate, billions	\$4,923.3	\$4,874.1r	2.1
ORDERS FOR DURABLE GOODS: MFG. (Dec.) billions	\$117.7	\$123.9r	-2.1
12 LEADING INDICATORS COMPOSITE (Dec.) index	144.8	145.2r	3.1

Sources: Census Bureau, Commerce Dept

MONETARY INDICATORS

	Latest week	Week ago	% Change year ago
MONEY SUPPLY, M1 (1/20)	\$912.8	\$903.5	10.1
BANKS' BUSINESS LOANS (1/22)	289.6	290.2r	-10.1
FREE RESERVES (1/22)	808r	624r	89.7
NONFINANCIAL COMMERCIAL PAPER (1/22)	133.3	133.0	-8.1

Sources: Federal Reserve Board (in billions, except for free reserves, which are expressed for two-week period in millions)

MONEY MARKET RATES

	Latest week	Week ago	Year ago
FEDERAL FUNDS (2/4)	3.83%	4.00%	6.32%
PRIME (2/5)	6.50	6.50	9.29
COMMERCIAL PAPER 3-MONTH (2/4)	4.09	4.10	6.44
CERTIFICATES OF DEPOSIT 3-MONTH (2/5)	4.03	4.03	6.45
EURODOLLAR 3-MONTH (2/1)	4.08	4.08	6.98

Sources: Federal Reserve Board, First Boston

*Raw data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment.
1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful



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Costlier than



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corporate jet.

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Readers Report

CORRECTIONS & CLARIFICATIONS

In the story "Safe, said Volvo may soon be burning rubber" (Inside W Street, Jan. 27), we misspelled Procella, the Swedish health care and pharmaceutical company in which Volvo owns a major stake.

used, government is the problem, not the solution.

If Congress modified American antitrust and banking laws—currently a pipe dream—U.S. companies could readily adopt what is used, from the Japanese.

Alvin S. Sussman
Professor of Political Science
University of Houston
Houston

The automotive industry, among others, has faced its own problem. Unlike the Japanese, the auto industry and many other industries in the U.S. have failed to target customer needs accurately. We must get back to managing our businesses under the marketing concept instead of seeking solutions. The Japanese.

Patrick J. Mahoney
Professor of Management
School of Business
Hofstra University
Hempstead, N.Y.

Even though the American economy shed many lost people, and much is supplied, that the British, we want to know, made was the key.

Money is the key to winning the economic competition with Japan. I was so appalled that you focused on "losing" to Japan. When America needs a boost of money to put itself on a recession-turned-to-depression, I feel that the media America's "strong word," does not do around telling of us that they are in search for the economic truth. Losing Japan a loser as our medicine would have made a more appropriate story.

David E. Brown
Scranton, N.Y.

QUALITY? WHERE DID JEEP GET THAT IDEA?

I just read the article "Does Chrysler really have the sleep that it needs?" (Science & Technology, Jan. 28) about the new Grand Cherokee. I don't quite understand what Chrysler has in mind with the "planned slow production strategy to assure high quality."

My '82 Cherokee had been in production for over five years when it was

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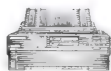
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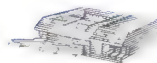
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multi, yet it had the quality and reliability of a '92 Fiat. After dishing out over \$1,000 a year in repairs for 2½ years, I finally threw in the towel and sold it.

Ron Liebersch
Scottsdale, Ari

INDONESIANS ARE CRAZY ABOUT AMERICA—BUT NOT ITS CARS

The articles "The Asia America is Ignoring" (Editorials, Jan. 20) and "When will Bush stop thinking small on Japan?" (Top of the News, Jan. 20) were right on target. We were overwhelmed on a visit to Indonesia by the dominance of Japanese vehicles on the overcrowded highways in that country and the lack of representation by the U.S.

We found the people in Indonesia to be fascinated with America and very curious about all aspects of our lives. If American music you hear everywhere, American clothes are worn by everyone and schoolchildren stop you on the street to practice their English. An ambition of almost everyone we spoke to was to visit America, particularly California. When then, would they not want our cars?

William and Beverly Webster
Bakersfield, Cal

NEEDED: MORE 'PLAIN VANILLA' PRODUCERS AND ENGINEERS

Now that our best human capital—the pick of the baby-boom crop—trained for exotic megatrends, not plain vanilla production and engineering like Japan's, we are laggards in the global trade marathon ("When will Bush stop thinking small on Japan?," Top of the News, Jan. 20).

Henry Fogel
Lexington, Mas

DON'T WRITE OFF KEVIN COSTNER, PLEASE

I see in the article "The ins and outs of '92" (Top of the News, Jan. 20) that BUSINESS WEEK declared Kevin Costner "out" and Nick Nolte "in." I missed the excitement, whatever it was, about Nolte. But with JFK, Costner is right at the center of U.S. consciousness in 1992. He is doing work that U.S. Founding Fathers would applaud, asking us to question an all-too-cozy relationship between government and military.

Early Sorenson
Clearwater, Fl

Letters to the Editor should be sent to Readers Report, Business Week, 1221 Avenue of the Americas, New York, N.Y. 10020. Fax: (212) 512-4400. Telex: 12-7960, Intl. 4998204. All letters must include an address and daytime and evening telephone numbers. We reserve the right to edit letters for clarity and space.

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Books

THE OVERWORKED AMERICAN: THE UNEXPECTED DECLINE OF LEISURE

By Juliet B. Schor
Basic • 247pp • \$21

WE WORK HARDER FOR THE MONEY

A new desire for time off is abroad in the land. A recent Gallup poll found that a majority of workers would favor longer vacations over pension plans, company cars, even annual bonuses. Despite the recessionary specter of lost jobs and frozen wages, leisure—not money—is today's power commodity, according to the sociologists, market researchers, and other pundits paid to know these things. If the ethos of the 1980s was to achieve and acquire at all costs, they say, in the 1990s, people would rather relax.

If so, that desire is colliding with reality: U.S. workers are actually spending more hours on the job, says Juliet B. Schor in *The Overworked American*. Despite all our high-tech time-savers, we enjoy less leisure today than 20 years ago—the reversal of a century-long

trend toward a shorter workday. Other writers have sounded the theme of an increasingly harried population—and some have disputed it. But Schor, a Harvard economics professor, backs it up in effectively empirical—and alarming—terms. Solid reasoning and thorough numbers-crunching mark her work.

Schor's research encompasses patterns in both housework and paid work among employees from all sectors over the past two decades. Her findings: The average American now works 164 more hours per year than 20 years ago—the equivalent of an additional month. The typical American works 47 hours a week, and if current trends continue, in 20 years "the average person would be on the job 60 hours a week—for an annual total of 3,000 hours a year."

Schor's statistical analysis, which

comes early, is heavy going for noneconomists. But bear with it: *The Overworked American* becomes a fascinating blend of social observation and economic theory as it discusses the causes of the work crunch. One culprit is technology, which by shrinking the time needed to do work has increased expectations. Automatic washing machines, vacuum cleaners, and similar devices have created spic-and-span standards unknown to housewives of earlier eras. On the office front, technological advances—modems, laptops, faxes, cellular phones, and voice mail—have all blurred the boundaries around work. It is now possible, and thus increasingly expected, for employees to be accessible and productive any hour, any day.

But the work crunch's fundamental causes, Schor asserts, lie at the heart of capitalism. Employers prefer to have people work long hours, she charges, because it costs less to work a few people longer, even if they earn overtime, than to have shorter hours for more people, all of whom receive benefits. Even keeping unemployment high, this pattern also holds down wages.

In this century, the workday shrinks considerably thanks to social legislation

MONTEREY NEW ORLEANS NEW YORK ORANGE COUNTY ORLANDO OTTAWA PHOENIX PITTSBURGH PUERTO VALLARTA PUSAN RANCHO MESA

WILSON JEFFERSON CITY KANSAS CITY INDIANA INDIANAPOLIS HOUSTON HILTON HEAD ISLAND HAMBURG GUATEMALA CITY GUADALAJARA FORT LAUDERDALE

O o o o b,



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KANSAS CITY INDIANA INDIANAPOLIS HOUSTON HILTON HEAD ISLAND HAMBURG GUATEMALA CITY GUADALAJARA FORT LAUDERDALE

t times, one wonders if Schor's point is simply that overwork is an evil wrought by management. But she also takes materialistic employees. In the 1950s and 1960s, labor unions gave up demands for shorter hours in favor of benefits and pay raises. This "Faustian gain of time for money," according to Schor, has created an insidious cycle of work and spend, as people "increasingly look to consumption to give satis-

**THE
OVERWORKED
AMERICAN**

The Unexpected
Decline of Leisure

JULIET B. SCHOR

Working less won't hurt productivity, Schor asserts. "The vast majority of America's competitors work far less than we do.... The West Euro-

Schor says corporations will balk at her proposals, and she's probably right: Historically, employers have protested they can't afford reforms, from child-labor laws to the eight-hour day. But I

The work crunch has exacted a terrible toll, writes Schor, including a lack of sleep, the rise of stress and stress-related ills, and the neglect of children. Women, she finds, are more overworked than men. As women enter paid labor, they substitute commercial services for some domestic labor, she notes, and men do more housework than in the past. Even so, women now work 7½ more weeks a year than they did 20 years ago.

How to reclaim our lost leisure?

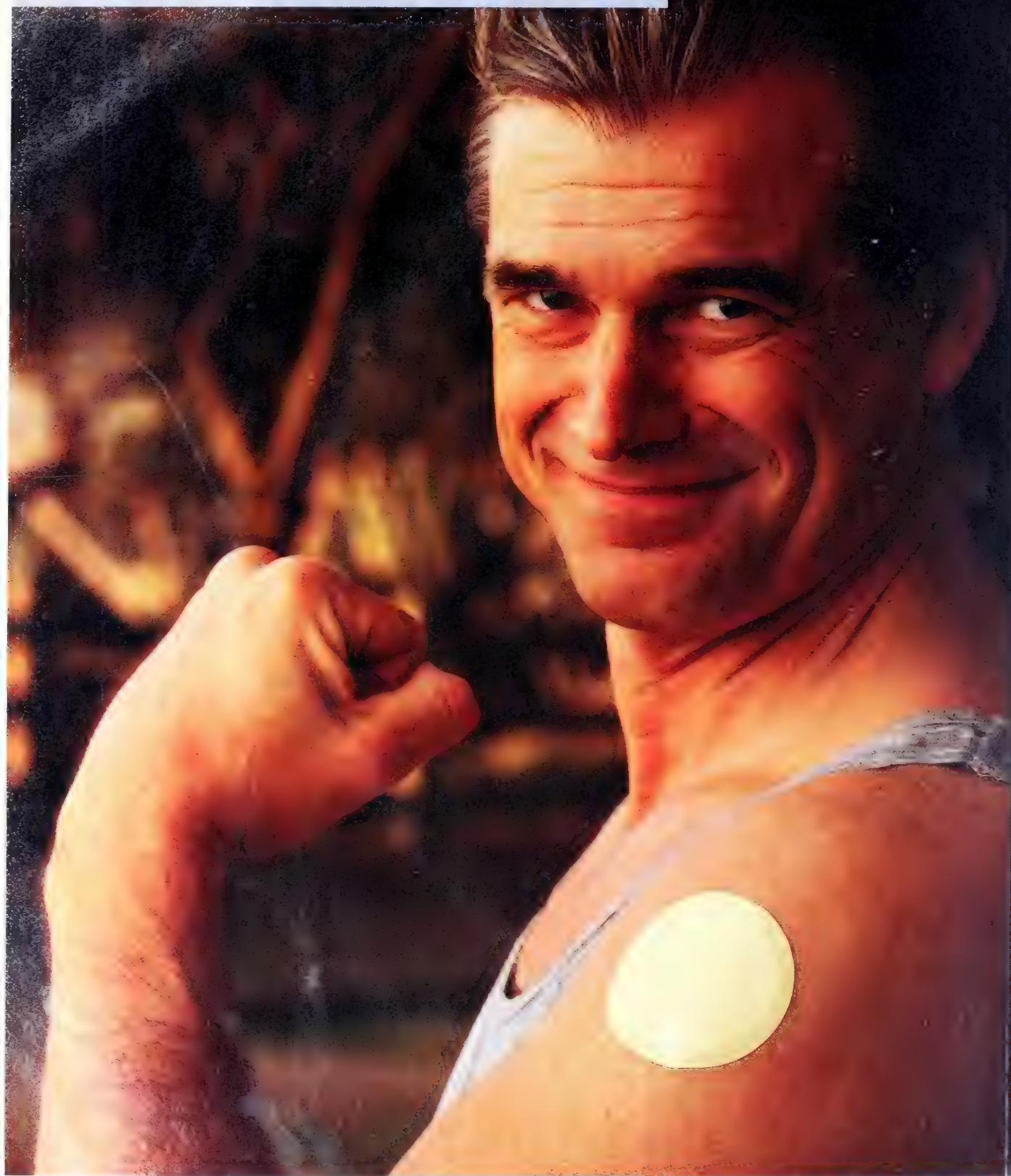
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About six years ago, I decided to stop smoking. So I tried cold turkey. It seemed to work for a while. But within three months, my wife caught me sneaking cigarettes out the bathroom window.

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INDICATIONS AND USAGE

CONTRAINDICATIONS

WARNINGS

Pregnancy Warning

Safety Not Established in Children

PRECAUTIONS

General

Allergic Reactions:

See Warnings

Cardiovascular & Peripheral Vascular Disease:

Patients with a history of peripheral vascular disease should be monitored closely.

Renal & Hepatic Impairment:

Endocrine Disorders:

Other Drug Interactions:

Adverse Reactions:

How Supplied

Drug Interactions

May Require an Increase in

Dose at Cessation of Smoking

Possible Mechanism

May Require an Increase in

Dose at Cessation of Smoking

Possible Mechanism

Carcinogenesis, Mutagenesis, Impairment of Fertility

Pregnancy Category:

Teratogenicity:

Animal Studies:

Human Studies:

Other Effects:

Animal Studies:

Human Experience:

Label and Labeling

Nursing Mothers:

Pharmacokinetics

Pharmacodynamics

ADVERSE REACTIONS

Other Adverse Events

Probably Causally Related

Cause Relationship Unknown

DRUG ABUSE AND DEPENDENCY

Dependence (Tolerance and Abuse Potential): See Warnings

See Warnings: Abuse Potential (See Warnings)

OVERDOSAGE

Overdosage - For Toxicity Studies

Overdosage - For Ingestion

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Management of Nicotine Poisoning

Safety and Handling

Disposal

How to Store

CAUTION

BASE

Pharmaceutical

THE SLUMP THAT BROKE THE PUBLIC'S BACK

BY ROBERT KUTTNER



Americans were already working longer hours and making sacrifices to adjust to an era of slow growth. Then they got zapped by the recession

This recession is about average, as post-war recessions go. Unemployment is at 7.1%. According to the usual definition of a recession as two consecutive quarters of negative growth, it barely qualifies at all. Real gross domestic product grew at an annual rate of 1.8% in the third quarter of 1991, was flat in the fourth quarter, and appears to be declining only slightly in early 1992. Moreover, the recession was preceded by a record peacetime expansion. Why, then, is there such pervasive economic gloom?

The reason, I suspect, is that this recession aggravates what some commentators are beginning to call a "contained depression"—the era of slow growth, diminishing economic horizons, accumulating debt, and increased personal vulnerability that began nearly two decades ago. Working Americans have adapted to this slow economic decline by borrowing to sustain consumption or by pinching pennies in a variety of ways. For instance, they are working longer hours, taking cheaper and shorter vacations, deferring and juggling the rearing of children, delaying purchase of a house or buying a smaller one, making cars last longer, and eating out less. So in this context of long-term economic stress, even a modest recession can feel more like a last straw than a temporary setback.

OVER THE CLIFF. The elements of this contained depression are diffuse and not fully captured by statistics. On average, the U.S. economy grew at about 2.7% annually during the Reagan Presidency—but the benefits of that growth were highly concentrated. The personal economies of most Americans fell. According to Congressional Budget Office data for 1977 through 1991, only the top 20% of households enjoyed real income gains, and the biggest winners were the top 1%, whose real income more than doubled.

The average U.S. real wage peaked in 1973. It recovered almost to the 1973 peak again in 1979, but for the past 13 years, living standards have stagnated or declined for about 80% of American households. To compensate, Americans are working longer hours—the equivalent of an additional month a year, according to Harvard University economist Juliet B. Schor (page 18). When real wages take a hit, families can adjust by moonlighting or by adding a spouse to the labor force—but only once. When the decline in real income accelerates, as it has during this recession, families see themselves going over a cliff.

Compared with the world of 1973, profound structural shifts have also taken place in the economy. The costs of home ownership, medical care, and college tuition—three basic

badges of membership in the middle class—have outstripped household income. Until recently, these shifts hit younger Americans disproportionately, for the generation that came of age before 1973 was substantially insulated. Most middle-class Americans over 45 bought home when houses were affordable. They reaped substantial equity that they didn't earn thanks to the great housing inflation of the 1970s. They already had their college degrees bought cheaply, and entered a career track at a time when Corporate America was far more stable and permanent. With a job came health insurance, a pension plan, and the expectation that if you performed reasonably well, you could stay on until retirement.

DEEP GLOOM. But in the 1980s, much that was economically solid began melting into air. Not only the young found the good life harder to attain. Even the secure middle-aged found that stable, comfortable corporations could be here today and gone tomorrow. Suddenly, it wasn't just blue-collar workers worrying about plant closings; the opinion-leader class was abruptly vulnerable, too. Oligopolistic industries that had implicitly guaranteed job security were buffeted by leveraged buyouts, deregulation, global competition, and competitive pressure to ratchet down costs, most of which were ultimately labor costs. These hitherto impregnable bastions included banks, brokerages, broadcasters, telephone companies, blue-chip print media, insurance companies, high-tech businesses, as well as the biggest manufacturing corporations.

Suddenly, nobody's job was safe, except perhaps those of tenured economics professors. With loss of a job came lost health coverage and abrupt entry into a ruthless labor market, where available jobs paid sickeningly reduced wages. Someday, all of this increase in competitive pressure may produce a more efficient and productive economy, but that day seems far distant. For the moment, it produces vulnerability and diminished income.

That's why political commentators are wrong to tie President Bush's fortunes to the trajectory of short-term economic recovery. People feel this elemental exposure not because the unemployment rate has climbed percentage point lately, but because of these long-term changes. The President, perhaps subconsciously, acknowledged this deeper gloom in his State of the Union address when he repeatedly used the venerable and ominous phrase "hard times." For most Americans, they are indeed. And however the measured recession fluctuates during this election year, all of this signals hard times for President Bush's reelection.

ROBERT KUTTNER IS CO-EDITOR OF THE AMERICAN PROSPECT AND AUTHOR OF THE END OF LAISSEZ-FAIRE



"When you love what you're doing as much as I do, it doesn't feel like work." *Plácido Domingo*

Wherever he travels, Plácido Domingo carries a series of green bound books into which he writes his engagements up to three years in advance. Such are the demands the opera world makes on one of its most sought-after performers.

His ability to thrill an audience is such that a legendary curtain call in Vienna lasted over an hour. "It would have been easier," Plácido said, "to sing the opera all over again."

Domingo has committed nearly a hundred operatic roles to memory. He believes this daunting repertoire is necessary to attract the widest possible audience because his ambition is to help more people, all over the world, enjoy the music he loves.

More than a singer, Domingo is also a respected conductor. "The operatic

conductor is like a Roman charioteer," he says. "He has a hundred horses on stage and a hundred horses in the pit. And he has to control them all."

Throughout his career, Domingo has held himself to the highest standards of performance. It's the same measure he uses when selecting a timepiece. "My Rolex is perfect for me," he states. "You could say it's one of my favorite instruments."



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Economic Trends

BY GENE KORETZ

U.S. INDUSTRY IS A WORLD-CLASS CONTENDER AGAIN...

While Americans are understandably obsessed by the recession and the economy's long-run problems, there is one development that clearly augurs well for the future: the strong performance of the foreign-trade sector.

The dramatic narrowing of the merchandise trade deficit in November, to a mere \$3.6 billion—the smallest monthly red-ink number in almost nine years—underscores the trend. While many observers attribute the improvement to weak import demand in the wake of the recession, economist James Solloway of Argus Research Corp. notes that exports were up 11.6% over November, 1990. "The remarkable thing," he says,

domestic-currency terms, ranged from 20% to 27% in Japan, Germany, France, and Canada, and hit 46% in Britain.

Add the effect of the weak dollar to these trends, and America's newfound competitiveness really shines. In 1985, for example, Japan's and Germany's manufacturing labor costs in dollars were 49% and 74% of U.S. levels, respectively. But by 1990, labor compensation in Japan was only 14% lower than in the U.S., and in countries such as Germany, Norway, Sweden, and Switzerland it was more than 40% higher. Since 1983, factory unit labor costs in dollars have declined by 1% in the U.S., while they have risen by 48% to 85% in Britain, Japan, France, and Germany.

Many economists warn that cyclical developments may offset these favorable trends in the year ahead, as economic slowdowns in Europe and Japan hobble purchases of U.S. exports and as a U.S. recovery sucks in imports. But Solloway and Stephen S. Roach of Morgan, Stanley & Co. think such fears are overblown. They point out that more than half of U.S. export growth in the past two years has come from the emerging economies of Asia and Latin America, which remain relatively strong.

At the same time, Roach notes that the U.S. dollar is now undervalued, rather than overvalued as it was at the end of the last recession—suggesting that a repetition of the kind of import penetration that ravaged U.S. manufacturers in the early stages of the last recovery is highly unlikely. "Any way you look at it," he says, "American industry is a heavyweight competitor again."

the average premium was about 65%. While U.S. tires cost 37% more in Japan than in the U.S. (\$65 vs. \$48), for example, Japanese tires sold for exactly \$66 in both countries. A \$170 U.S. calculator cost Japanese consumers 67% more than that, and a \$449 U.S. laser printer was priced at \$825 in Japan.

Yager notes that most of the products were not subject to tariffs and that even products of U.S. companies that were manufactured in Japan cost Japanese consumers 30% more than U.S. consumers paid. The clear implication is that nontariff trade barriers are exerting strong upward pressure on the Japanese prices of foreign products, severely limiting the ability of imports to penetrate Japanese markets.

HEADHUNTERS SPY SIGNS OF LIFE IN THE NORTHEAST

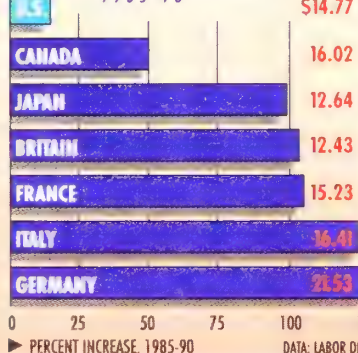
Suddenly, there seems to be a little more room in some executive suites. According to the Association of Executive Search Consultants (AESC), executive searches in the Northeast rose 15% in the fourth quarter and were up 10% from a year earlier. While other regions posted little or no growth, AESC President Glenn Van Doren notes that the Northeast was not only the first and hardest-hit victim of the recession but the headquarters site of many of the nation's largest banks and corporations.

The recent upturn in the Northeast, says Van Doren, is the first since the summer of 1990, and "it makes us cautiously optimistic that the long-awaited economic turnaround has begun."

AMERICA GAINS AN EDGE IN LABOR COSTS

FACTORY WORKERS' HOURLY COMPENSATION

CHANGE IN DOLLAR TERMS 1990
1985-90



"is that exports have remained so strong despite a global economic slowdown."

Needless to say, the sharp decline in the dollar since 1985 has played a major part in the export surge. But Solloway and others point to more basic changes, particularly the efficiencies achieved through the painful restructuring of U.S. industry in the early 1980s. For example, manufacturing productivity, or output per hour, rose by a heady 30% between 1983 and 1990—far faster than the 13% and 19% gains in countries such as Canada and Germany and not far behind Japan's 35% rise. In fact, U.S. factory productivity has actually risen a bit faster than Japan's in recent years.

What's more, U.S. industry has exhibited unusual wage restraint. Between 1985 and 1990, American manufacturers granted their workers pay raises of only 3.5%. By contrast, such increases, in

...BUT ITS PRODUCTS COST JAPANESE CONSUMERS A BUNDLE

While the U.S. trade balance with Europe has moved steadily from a deficit of \$30 billion in 1986 to a \$15 billion surplus, the deficit with Japan has been stuck around \$40 billion since 1990. A recent analysis of retail prices of several dozen products in Japan and the U.S. by Rand Corp. researcher Loren Yager suggests one reason why.

What Yager found was that prices of Japanese products sold in the U.S. were generally quite close to their retail prices at home. For example, a Japanese VCR retailing for \$424 in Japan cost U.S. consumers \$430, while a Japanese camera priced at \$578 in Japan sold for \$555 in the U.S.

By contrast, about 60% of U.S. products sold in Japan carried price tags at least 40% higher than in the U.S., and

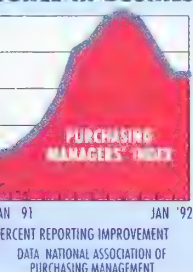
THE DOWNSIDE OF THE PEACE DIVIDEND

While Congress weighs new cuts in defense outlays, economist Carl Stone of Nomura Securities International notes that they are already plunging—by \$6.1 billion in last year's third quarter and \$11.6 billion in the fourth. And these cuts, plus others in the pipeline, she warns, "will offset fiscal stimulus in other sectors." Using an econometric model developed by Lawrence Meyer & Associates of St. Louis, Stone estimates that just the drops in defense spending in the last half of 1991 will subtract about half a percentage point from gross domestic product the next six months as their multiplier effects percolate through the economy.

THE CHILL COULD LAST RIGHT THROUGH THE SPRING

There's a recovery in the economy's future. The Federal Reserve has planted the bulbs. The Administration and Congress are throwing in some fertilizer. But if you're trying to count the crocuses breaking through the ground, forget it. They're not there yet. Yes, housing is recovering, but that's not new. Homebuilding has been in a modest upturn for a year, and lower interest rates and tax giveaways will help out. Exports are growing, but that's old news, too. The real keys to a cyclical turnaround are stronger labor markets, a pickup in domestic demand, and better confidence that the Fed's past easings of monetary policy are sufficient to spark a general upturn in business. In these three areas, the signs are still lacking.

PURCHASERS SEE NO BOUNCE IN BUSINESS



New claims for jobless benefits remained high in January, and job worries continue to depress measures of consumer confidence. Commodity prices, a sensitive indicator of changes in demand, still have not shown the early-recovery bounce that they typically do. A recent surge in lumber prices, however, probably does reflect some new strength in housing.

As for consumers, spending tanked at the end of 1991, and initial January readings look poor. Car sales weakened further last month. And although some retailers report sales are up from a year ago, that's probably because buying during the gulf war was so dismal.

With consumers out of action, manufacturing is losing momentum. New factory orders are falling, and the nation's purchasing managers report that industrial activity began the year with no signs of growth (chart).

LONG RATES POSE A THREAT

All this bad news does not write off the recovery. But it does suggest that getting there could be difficult and take longer than the consensus forecast of a spring turnaround implies. The index of 11 leading indicators, which is supposed to foretell the economy's future, seems to say as much. It fell 0.3% in December, the second consecutive decline. The index has posted only one slim gain since July. At least one of those leading indicators, the M2 money supply, looked more encouraging in January. M2 fell sharply at yearend, but a surge during January suggests that the weakness was more technical than fundamental. However, M2 continues to grow at the lower end

of the Fed's 2.5%-to-6.5% target range. Until money grows faster, doubts will remain about the ability of past cuts in interest rates to spur the economy.

Fed Chairman Alan Greenspan said in congressional testimony on Feb. 4 that the central bank expects previous rate cuts to generate a sustained recovery beginning in the second quarter. He also hedged his forecast. He said that assessing the outlook right now is "extraordinarily difficult," and that the Fed is "continuing to evaluate whether some additional insurance in the way of further monetary ease would be appropriate."

Most assuredly, the economy will need more help if long-term interest rates keep rising. The backup in long rates, coming without any concrete signs of recovery, threatens to kill off the upturn at its roots. Low rates are critical to housing and to the restructuring of the debt-laden balance sheets of consumers and businesses.

The huge financing needs of the U.S. Treasury remain the biggest prop under long rates. At its quarterly refunding announcement on Feb. 5, the government pleased the bond market with its smaller-than-expected financing needs and its onetime cut in the proportion of 10-year and 30-year bonds. However, the market was disappointed that Treasury had no plans for a permanent reduction in its dependence on long-term financing.

ARMS CUTS: AT WAR WITH RECOVERY

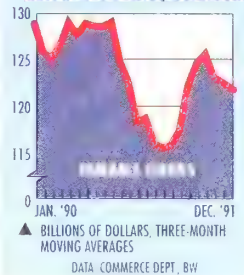
Defense cutbacks could be another stumbling block for the recovery. Real military outlays fell last quarter at a 15.4% annual rate. That is the sharpest quarterly decline since the pullout from Vietnam in 1973.

The drop is equivalent to a full percentage-point decline in real gross domestic product, and secondary impacts on incomes and spending will show up in later quarters. Moreover, the cutbacks have only begun.

Less defense spending is just one more drag that the manufacturing sector can do without right now. The auto industry and its suppliers are already hurting, and factory orders generally are slumping. Durable goods orders dove 5% in December, to \$117.7 billion. Monthly bookings are volatile, but the December decline was broad, and the three-month average shows that orders are trending downward again (chart).

In addition, new bookings are coming in slower than shipments are going out, which is depleting the order

FACTORY ORDERS HEAD SOUTH, AGAIN



Business Outlook

factory-related orders fell 0.8% in December, the fourth consecutive decline. The backlog slipped to the lowest level in more than two years. With both new and backlog orders falling, factories have little incentive to boost output or their payrolls.

Manufacturing remained in decline in January, according to the National Association of Purchasing Management. The NAIAP's index of industrial activity held steady at the December level of 47.4, and a reading below 50 indicates that manufacturing is in recession. Orders and output posted no growth in January, says the NAIAP, and employment continued to fall.

INCOMES ARE UP —BY A FEW DOLLARS

The grumblings that manufacturing faces in sales have stem directly from the two-salary retrenchment of late 1991. Adjusted for inflation, real incomes fell 0.6% in November, but rose in December and didn't grow at all in January. For the quarter, real spending on goods and services declined at an annual rate of 1.1%.

That weakness was concentrated in goods purchases. Outlays for goods plunged at a 5.2% annual rate in the fourth quarter. The severity of that slide is comparable to that of the 1981 drop registered during the fourth quarter of 1980—the worst quarter of the recession.

The slump in the buying accounted for some but not all of last quarter's weakness in goods purchases. And car sales continued to be a bright exception in January's slump.

New-vehicle monthly sales rose at an annual rate of 8.1 million in late January, a highlight that was better than the 8.7 million pace at mid-month and the 8.6 million showing early in the month. January sales stood

at a paltry 5.9 million—a shade lower than in December.

Home buying may well be a different story in January. Although sales of new single-family homes fell 4.8% in December to an annual rate of 522,000, purchases last month probably picked up in response to sharply lower mortgage rates, and the promise of favorable tax treatment will probably lure some first-time buyers later on.

However, nothing can kill a housing recovery like higher mortgage rates. The average rate for 30-year fixed loans has risen by half a percentage point, to 5.52% for the week ended Jan. 30, from 5.01% in the week ended Jan. 10 (chart). That's back to where rates were in early November, when sales weren't so hot.

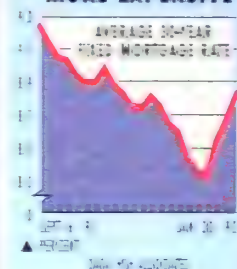
Fixed mortgages are more expensive because of the general rise in long-term rates and also because the wave of refinancing has pumped up mortgage demand, allowing banks to charge more.

The housing recovery is sure to lift home-related purchases of goods, but a full-blown turnaround in consumer spending will not happen until employment and incomes improve in a big way.

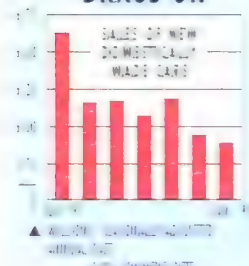
Personal income did rise a strong-looking 1% in December, but a host of onetime influences boosted the gain. Including a jump in farm subsidies, special payments of jobless benefits, and bonuses for auto workers, incomes rose only 0.7%. And inflation stole 0.6% of that.

In the third and fourth quarters of last year, real after-tax income rose at annual rates of only 0.2% and 0.3%, respectively. It's little wonder that consumers are not yet in a position to lead this economy into a recovery. If consumer fundamentals do not show marked improvement by March or April, you can forget about a spring recovery and start hoping for a summer turnaround.

MORTGAGES GET MORE EXPENSIVE



DETROIT'S SLUMP DRAGS ON



THE WEEK AHEAD

RETAIL SALES

Forecast: Feb. 12, 1.0% rise.
Retail sales were expected to increase 1.0% in February, according to economists at the National Bureau of Economic Research. A rise of 0.7% in Jan. 1992 would mean that the annual increase would be 2.2%, a record. In December, sales rose 1.0% to a disappointing 4.4%. Economists believe that February sales are expected to have edged up to 1.2% in January, covering their 0.2% loss in December.

PRODUCER PRICE INDEX

Forecast: Feb. 12, 0.1% rise.
The Department of Commerce expects that producer prices of finished goods will rise 0.1%

in January, after falling 0.2% in December. Lower oil prices are helping back inflation at the wholesale level. But even excluding the volatile food and energy components, producer prices probably fell by 0.2% in January, the same rate decline as in December. The recession continues to keep price increases at a very moderate pace.

INDUSTRIAL PRODUCTION

Forecast: Feb. 12, 0.1% rise.
Output at the nation's factories, mines and utilities probably fell by about 0.1% in January, say the economists. This expected decline would be the fourth consecutive drop in output, including a 0.2% fall in December. The capacity utilization rate for all industry likely fell to

75.8% last month, from 76% in December. The poor industrial data are suggested by the stagnant performance in the National Association of Purchasing Management's index of industrial activity in January. Sagging domestic demand continues to hit the factory sector.

BUSINESS INVENTORIES

Forecast: Feb. 12, 0.1% rise.
The stock consensus expects that inventories held at factories, wholesalers and retailers increased by about 0.1% in December. In November, stock levels inched up by 0.2%. Business sales probably declined by about 0.2% in December, as suggested by weak factory shipment and retail sales. In November, business sales rose by just 0.1%.

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FEBRUARY 17, 1992

JAPAN TAKES A GOOD, HARD LOOK AT ITSELF

IS ITS BRAND OF CAPITALISM SIMPLY BETTER?



What's going on here? On Feb. 3, just two days after leaving New York, Japanese Prime Minister Kiichi Miyazawa stunned America by declaring on live television that "American workers have come to lack a work ethic."

Adding it in, a former Japanese trade minister proclaimed that U.S. auto workers goof off on Fridays and Mondays because they're obsessed with weekend play. Both remarks blamed a trans-Pacific fire storm sparked by similar comments from another Japanese politico.

Why Miyazawa and the others said what they did remains unclear. But the thrust of the message is not: The Japanese view their nation as the economic powerhouse of this decade, not the coming century. Meanwhile, as Japanese politicians

and businessmen profit, Japanese intellectuals are grappling with a disturbing conflict: Are Japan's runaway economic gains turning the island nation into a global pariah? "We can't overdo it," warns Masaya Miyoshi, president and director general of Keidanren, Japan's powerful big business association. "Defeating our competitors means we'll defeat ourselves."

ME TO PREACH. Shaping a response may be the country's most agonizing policy dilemma of the postwar era—one that goes straight to the heart of Japan's most fundamental economic strategies. How can Japan make its overwhelming economic success acceptable to the rest of the world? Should the nation change to make itself less fearful, even if it means shedding some of its strengths?

Leaders such as Sony Corp. Chairman Kenichi Morita and Keidanren Chairman Shigeo Hiraiwa have started to say yes. On the other side of the issue are some of Japan's most powerful industrialists and bureaucrats, such as Eisuke Sakakibara, a deputy director general at the Finance Ministry. Their position: Japan is different and should proselytize abroad. "It's time for Japan to become a little more assertive," says Sakakibara, author of the 1990 book *The Japan that Surpassed Capitalism*. "We have to identify the special characteristics that should be preserved."

Earnest talk of the need for change is a long-old Japanese ploy. But a real debate is crackling in high-level Japanese circles. Many are asking: Just what constitutes Japanese-style capitalism? How incompatible is it with orthodox Western models? And the really tough question: What, if anything, can be done about it? The discussion has become so heated that it has even won a name: *ron Ishitsuron*, Japan as different.

There is a risk to doing nothing. Without action, Japan may find its economic victories increasingly contested by protectionist barriers. Already, such pressures are steadily mounting from the U.S. and Europe. Ultimately, they could be strong enough to force Japan to change. "To the extent we don't establish the appropriateness of Japanese-style capitalism, our economic expansion can't be justified," says Iwao Nakatani, professor of economics at Osaka University.

For years, many Japanese argued that their system differed

only superficially from the West's. Only now are the nation's leading-edge economists gaining credence with their new school of "neocapitalism." Japanese intellectuals "have begun to see clearly that there must be special reasons for the excellent performance of the Japanese economy," says Koji Matsumoto, professor of policy science at Saitama University and author of the 1991 book *The Rise of the Japanese Corporate System*.

FUZZY RULES. At the core of this argument is the idea that Japan's capitalism is distinct from the West's in four ways (table). The most important is a dedication to building relationships that don't exist—or exist only rarely—in the U.S. In Japan, for instance, government and industry are closely allied. The result? Controlled prices, targeting of strategic industries for growth, and regulation of industry through bureaucratic "guidance" rather than clear-cut rules. A case in point: Officials only winked at last summer's revelations that Japan's biggest brokers were colluding to cover customer losses. "Without rules, it's very hard for outsiders to participate," says Haruo Shimada, professor of economics at Keio University.

Then there are the links between Japanese companies—ties that are built on history, cross-shareholdings, and old-boy networks. Conglomerates, called *keiretsu*, protect companies from takeovers, minimize transaction costs, and spread risk. Sumitomo Bank, for example, doesn't need to do a Western-style financial analysis of fellow *keiretsu* member NEC Corp. before granting it a loan. "One reason NEC is a leader in integrated circuits is Sumitomo Bank's willingness to supply funds even when that business is unprofitable," says Shimada. "No U.S. bank would have given so much money to NEC."

The weak role of Japanese shareholders also gives management an edge. As many as three-quarters of a Japanese company's shares are held by other corporations, which are invited to buy them. The result: Japanese managers don't worry about short-term results. "Shareholding is not a system of control," says Saitama's Matsumoto. "Japanese companies are controlled by and exist for employees. If forced to choose between skipping dividends and laying off personnel, almost all Japanese managers will choose the former."

The relationship between companies and their workers marks another major difference in Japan's capitalism. Guaranteed lifetime employment means little turnover and high productivity. Docile company unions and the scarcity of outside directors present no challenge to top management. It's no wonder Japanese executives are reluctant to delegate authority, especially to overseas operations. "The power elite protects its own interests, which means not paying dividends but simply increasing market share and the size of the company," says Ken Moroi, chairman of Chichibu Cement Co. and a prominent business leader. "That increases their position, status, and compensation."

The timing for this debate about Japan's success may seem curious. After all, Japan's economy is sliding toward reces-

CAPITALISM, JAPANESE-STYLE

GOVERNMENT-INDUSTRY TIES

BENEFITS: Protects failing industries, nurtures growth industries

DRAWBACKS: Distorts market prices, hinders newcomers' entry

KEIRETSU

BENEFITS: Relationships between companies allow risk-sharing, access to capital and technology

DRAWBACKS: Excluded companies have trouble competing

CORPORATE LOYALTY

BENEFITS: High productivity and quality. Stable work force and top management team

DRAWBACKS: Excessive employee obedience and dependence limits time for socializing and leisure

FEW OUTSIDE SHAREHOLDERS

BENEFITS: Managers don't need to focus on short-term results

DRAWBACKS: Managers don't feel shareholder accountability

sion. Its overseas investments last year tapered off sharply, and the Tokyo stock market is languishing. The low cost of capital long enjoyed by Japanese companies has disappeared. But many of Japan's overseas rivals are focused instead on the country's awesome array of fundamental competitive strengths, which are ready to exploit the world's next economic upturn (box). It was this prospect, and foreigners' fear of it, that helped spur Japan's elite into debate.

Then there's the end of the cold war—another reason the Japanese are taking a hard look at themselves now. The clash between capitalism and communism is over. Today's tension lies between competing forms of capitalism. "Without the Soviet Union, suddenly an economic threat that's completely different in nature has emerged," says Keidanren's Miyoshi. "We've come to the point where we've got to discuss the differences in systems." What's more, last year's spate of securities-industry and real estate scandals dramatized the degree of collective scheming that occurs within the Japanese system. The upshot? Japan's "neocapitalist" thinkers began to search even more intently.

'ON THE THRESHOLD.' Wherever the debate leads, Japan must come to terms with its own might. "Japan is on the threshold of greatness," says Kenneth S. Curtis, strategist and senior economist at DB Capital Markets (Asia) Ltd. in Tokyo. "But it can't run a \$1 trillion current-account surplus this decade without incurring huge problems."

Within the country, there are plenty of people who would benefit from change. Workers who routinely put in a 44-hour workweek certainly wouldn't complain if Japanese companies decided to cut back on hours, but not on pay, to give them more free time. And most citizens would welcome massive spending of Japan's surplus on improved roads, sewers, housing, and public parks.

But these are relatively easy reforms. It would be much tougher to change the *keiretsu* system or the cozy links between government and industry. The bulk of Japan's powerful corporate interests are dead set against tampering with a system that has enjoyed such smashing success.

For the visionaries who see the danger of being out of sync with the rest of the world, the challenge is to adjust Japan's winning formula without destroying its competitiveness. Then again, the Japanese are known for their amazing skill in packaging a product to meet local tastes. The trick is to make their brand of capitalism more acceptable worldwide.

By Robert Neff in Tokyo

HAS JAPAN PEAKED? DON'T BET YOUR LEXUS

To some, Tokyo's financial woes seem an awful lot like the vital signs of a dying patient. The stock market has dropped 45% since its 1989 peak, robbing Japanese companies of one of their big competitive advantages: cheap cash. Tokyo real estate values have plummeted. Bankruptcies have soared. By 2000, the country faces a shortage of a million skilled software engineers. And the government is consumed by a new political scandal nearly every week. Could it be that mighty Japan has peaked?

Far from it. In fact, Japanese economists say the market could languish for years without harm. Sure, the downturn may force more revamping of Tokyo's scandal-plagued financial sector. But Japan's giant manufacturers, the backbone of the country's economy, are stronger than ever. During the past five years, they've managed to plow a staggering \$3 trillion into plant and equipment, according to DB Capital Markets (Asia). They've pumped \$500 billion more into research and development. And they've matched the U.S. in private-sector research spending (chart).

The result? Japan's heavyweights have seized near-control of entire industries—including global electronics. They're squeezing profits out of sunset businesses such as steel and shipbuilding. And they're coming on strong in software and systems design, once the domain of the U.S. So even if Japan has lost its relatively low cost of capital, the country still figures to outshine competitors in the 21st century.

SPOTLESS ROBOTS. Japan built its post-war economic miracle on manufacturing, and Tokyo plans to keep expanding the base. Its next push: to make products and whole production systems artificially intelligent, so that electronic systems of all sizes—from basic personal computers to steel plants and subway systems—will need little human supervision or maintenance. Nippon Steel Corp., for one, now uses computer-based intelligence to streamline the complex flow of materials in its steel plants.

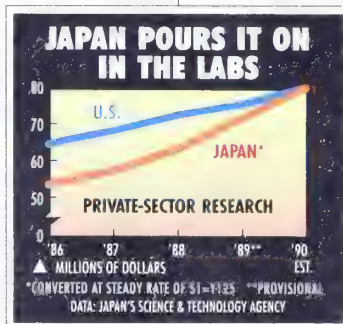
Japan's most impressive success in top-of-the-line automation could be in microelectronics. Take Sony Corp.'s Kohda

plant, outside Nagoya. The world's best assembly plant for 8mm camcorders, Kohda boasts unrivaled high-density mounting capability. In one assembly area, three-unit clusters of insertion machines take less than 30 seconds to

1,000 chips of different shapes and functions onto a surface the size of two cigarette packs. The process that's 99.3% automated, spotless when robots stamp 370 microchips into position each month, with only one defect per million.

Building such manufacturing technology is extremely expensive.

proof, look at capital outlays by Japan's leading memory-chip manufacturers Toshiba, and Hitachi. They have spent billions on the technology. Hitachi Ltd. plans to put \$3.3 billion into research this year and \$1.8 billion more into plant and equipment. Next up: a Hitachi re-



NIPPON STEEL: MANUFACTURING IS STILL

center focused on developing chips that can store 1 billion bits of data, versus 1 million stored on chips today.

Such advances guarantee that the world's consumer electronics makers will become increasingly reliant on Japanese suppliers. That explains why Intel Corp. is expected to announce on Feb. 5 that its main competitor, Sharp Corp., will act as its sub-

in the market for "flash" memory that red-hot technology lets a computer store data even after its power is off.

Use of such deals, America's PC companies may have little choice but to head to Japan for components. But PC makers there are becoming dependent on Japan for parts. Apple, IBM, Compaq, and most other U.S. makers of laptop computers are users of Japanese chips, power supplies and other technologies. In the ultimate move to Japanese manufacturing, Apple Computer Inc. now purchases finished laptops from Sony. Although Apple will confirm the details, it is discussing a similar arrangement with Digital Equipment Corp. just as it is with Epson Corp. as a laptop partner. There are rumors that workstation makers like Microsystems Inc. may ask Matsushita Electric Industrial Co. to jointly develop multimedia computers, which will be used in entertainment and education.

CHALLENGE. America's computer market faces little competition from Japan in the near future. That's not true for the auto market, where Japanese autos continue to dominate the U.S. share. For that, Japan can thank its massive capital spending and R&D. In 1990, the top five auto makers pumped about \$10 billion into R&D. The industry as a whole spent an equal sum on new equipment last year's Tokyo Motor Show, where auto makers showcased the latest in efficiency and environmental technology, including electric cars and so-called "hybrid" engines that save gas by using a combination of gas and electric power. "By the year 2000, the environment will be at the heart of Japanese auto marketing," predicts Takashi Tamiya, an executive at Tokyo-based Daihatsu Motor Co., a supplier of sheet metal for cars.

Japan is in a better position than America to challenge a cherished frontier: basic science. Last year, the Japanese poured about \$17 billion into scientific research, and the Japanese government wants to up its spending to \$20 billion. The Science & Technology Agency is expected to double government spending to \$40 billion over the next seven years. Even the success of the U.S. Superconducting Supercollider project, which could deepen understanding of atomic forces, hinges on Japanese largesse.

Don't be misled when the Nikkei Stock Index drops again, a real estate speculation bust, or yet another politician is involved in a scandal. It may sound like gloom, but in Japan the real economic outlook is overwhelmingly upbeat—as long as Japanese manufacturers keep their checkbooks open and their robots humming.

By Neil Gross in Tokyo



A YEAR LATER: U.S. EXPORTS DOUBLED TO \$2 BILLION IN '91 AND COULD TOP \$3 BILLION IN '92

OPERATION DESERT MARKET: A THIRST FOR U.S. GOODS

The Kuwaitis are snapping up everything from 747s to Caprices

When Kuwaiti Airways Corp. revealed at last summer's Paris Air Show that it would spend \$2 billion on 15 Airbus Industrie jetliners and take options on 9 more, Washington was not amused. Robert A. Mosbacher, then Commerce Secretary, dashed off a letter to Kuwait's ruling al-Sabah family suggesting that they also keep Boeing Co. in mind. The message got through: Any week now, Boeing is expected to sign a \$500 million contract with the Kuwaitis for three 747s.

Boeing isn't the only U.S. company enjoying a bit of pampering in Kuwait. One year after the liberation of the tiny nation, American companies have stormed into the emirate, hawking everything from construction rigs to Chevrolet Caprices. Indeed, Kuwait has steered to U.S. companies roughly 70% of the initial \$600 million in contracts from its emergency recovery program, as well as much of its multibillion-dollar oil industry reconstruction efforts. In fact, American exports to Kuwait last year swelled to about \$2 billion—more than double 1989's prewar level of \$855 million. This year, the Commerce Dept. projects, exports could hit \$3 billion.

That's good news for the Bush Administration. Although Iraq's Saddam Hussein remains in power and Kuwait has dragged its feet on political reform,

Bush can at least point to some big economic dividends for the U.S. from the gulf war—often at the expense of once dominant European and Japanese rivals. Says one White House official: "We're very pleased with the business climate" in Kuwait.

Of course, not every U.S. company can tell tales of conquest. Kuwait's early reconstruction efforts have been poorly organized and routed exclusively through the office of the Crown Prince, where deals have been known to be mysteriously deep-sixed at the last moment.

JOYRIDES. Such problems aside, a number of U.S. outfits are having a sweet time of it. Bechtel Group Inc., the San Francisco-based global engineering company, pulled in about \$1 billion helping put out the nearly 650 oil wells torched by Saddam's retreating troops. And it stands to lap up even more work. The state-owned Kuwait Oil Co. recently began the second phase of reconstruction, which includes drilling 300 new wells, repairing 200, and fixing gas and oil separator systems. Such U.S. oil-patch outfits as Dallas-based Halliburton Co. have also won a piece of the action. In all, the Kuwaitis will probably spend \$8.5 billion over 10 years reviving their oil industry.

Then there's Detroit's Big Three, which are enjoying their own joyride in Kuwait. Together, the three rang up

Top of the News

1991 sales of \$700 million, as Kuwaitis began to replace the estimated 250,000 to 300,000 cars looted and destroyed by the Iraqis. The emirate has become a major market for the Chevrolet Caprice, whose 23-gallon gas tank and powerful air conditioning made it the getaway car of choice during the war. Now, it's a favorite among the region's police.

PHONE BID. Other companies see gold in Kuwait as well, but they may have to wait a bit for their share. Take American Telephone & Telegraph Co., which won praise for rigging makeshift phone

service right after the fighting stopped, so folks could call out of Kuwait, gratis. Now, AT&T has a strong shot at getting part of a new \$1 billion phone system.

How long can American companies bank on gratitude? "The real question for me is whether the U.S. will do well in 1993 when the foreign competition will surely stiffen," says Representative Lee H. Hamilton (D-Ind.), who heads the foreign affairs subcommittee responsible for the Middle East. While European and Japanese rivals have lost some choice deals, they remain a formidable

presence. Kuwait, for instance, likely will go ahead with a \$1 billion deal with Mitsubishi Electric Corp., struck in 1989 to construct a new power plant.

For now, though, the Kuwaiti appreciation of things American is running strong. Through 1996, the Kuwaitis will spend roughly \$25 billion to put their country back together. That gives U.S. executives plenty of reason to work the kingdoms of Arabia.

By Brian Bremner in Washington, with John Rossant in Rome and Peter Coy in New York

Commentary/by Howard Gleckman

WHY BUSH'S BUDGET-SHUFFLING DOESN'T ADD UP TO GROWTH

If President Bush were a stockbroker, he might be accused of churning. The growth package he announced on Jan. 28 shuffles the policy portfolio but offers little in the way of fundamental change. Sometimes, the White House actually fights with itself, subsidizing and penalizing essentially the same activity (table).

And in a grand old election-year tradition, Bush wants to borrow from the future to boost growth now. He would pass out some goodies before November, only to whisk them away within 18 months. The result: a spurt in consumption that may well give way to a drop in activity in 1993.

The shuffling is evident throughout Bush's budget. His real estate proposals give away money but do little to boost long-term growth. His profamily proposals subsidize children but not marriage. The conflicts are even clearer in the President's proposed savings incentives.

SAVE OR SPEND? The White House wants to shift resources away from current consumption and toward future investment. But a closer look suggests otherwise. One vehicle to encourage private saving is the Flexible Individual Retirement Account, a generous tax-free investment plan. But by allowing the money to be withdrawn for medical, education, and home-buying costs, the plan also tries to boost consumption. And at the same time that the Administration offers new tax breaks for IRAs, it would slash tax breaks for people who do their long-term saving through insurance-company annuities.

Bush's real estate proposals

would likewise do little to increase long-term growth (page 37). First-time home buyers not only can make a penalty-free withdrawal of their IRA money for their downpayment but they would also enjoy a \$5,000 tax credit for houses they buy this year. That may spur construction now but could mean a marked slowdown a couple of years from now. Says economist Joel Prakken of Lawrence Meyer & Associates: "You'll get a real whipsawing effect."

At least the housing proposal would boost construction in the short run. That's more than you can say for an-

other measure, which would allow developers to use losses from one project to offset their tax liability on profits from other deals.

MIXED MESSAGE. With an office-vacancy rate of nearly 20%, a tax break for developers is unlikely to put a single carpenter or mason back on the job. What it would do is increase asset values, forestall some foreclosures, and perhaps, keep a few bank lenders alive for a while longer. But it would do nothing for commercial real estate's real problem—too little demand for too much inventory.

Investment in human capital suffers from the same kind of shuffling. Bush is trumpeting his support for families. And he points to two specific proposals—the \$500-a-kid increase in the personal exemption and beefed-up funding for Head Start, the preschool program. But by subsidizing the cost of children without ending the tax penalty on married couples, the "profamily" President sends a mixed message.

As for Head Start, it turns out that the big boost in funding is only for the coming fiscal year. Over the remaining four years of the Bush budget, Head Start would be frozen at 1993 levels. And according to the Urban Institute, spending for all human-resources programs, except health care, would decline by more than a full percentage point of gross domestic product over the next five years.

The Bush economic package seems increasingly Oz-like. There's a lot of noise and smoke but look closely, and there isn't very much behind the curtain.

RHETORIC & REALITY	
PRESIDENT BUSH PROMISES TO:	BUT HIS BUDGET OFFERS:
Encourage businesses to accelerate investment 	An investment tax allowance that's equal to only a 1% investment tax credit and does little for small business
Spur construction 	Tax breaks for passive losses that will raise values but will do nothing to increase demand for commercial projects
Strengthen the family 	An increased personal exemption that averages out to only \$75 per child. And the tax code still discourages marriage
Promote savings and investment 	A mixed message: Yes, the IRA proposal is generous, but most other tax proposals spur consumption, not savings

DATA: PRESIDENT'S STATE OF THE UNION ADDRESS, OFFICE OF MANAGEMENT & BUDGET, URBAN INSTITUTE



ADARYS (LEFT) HOUSE HUNTING: DESPITE THE BREAK, THEY'LL LEASE INSTEAD OF BUY

BREAK FOR HOME BUYERS —BUT WHAT ABOUT THE ECONOMY?

Experts say Bush's tax credit may amount to a drop in the bucket

For James Ahern and his wife, Kim Dobbins, President Bush's offer to give them \$5,000 for buying their first home was welcome news. The Chicago couple had been looking for a house before the State of the Union message, and now they're ready to bid on a 20,000 condominium in Chicago's trendy Lincoln Park section. Speaking of the tax credit, Ahern says: "It's just icing on the cake."

Other house hunters may share Ahern's sentiment. The proposed tax credit seems to be a sweetener for buyers who were already browsing in a market that features eager-to-please sellers and low mortgage rates. If Bush gets his way, a first-time buyer—defined as someone who has not owned a home in the past three years—will be able to receive a tax credit of up to \$5,000, with the credit applied evenly against 1992 and 1993 taxes. The Administration claims the incentive will boost housing starts by 125,000 this year, to 1.2 million. It would increase new construction activity by about \$12 billion spread over 1992 and into early 1993.

But many economists aren't convinced that the tax credit makes much sense. They're just as skeptical of a proposal to allow penalty-free withdrawals from individual retirement accounts for downpayments and one that would make capital losses for home sellers deductible. "Housing is already in an upturn," ar-

gues Lacy Hunt, chief economist of the Hongkong Bank Group.

In fact, housing starts have been rising slowly since last spring. And most forecasters expected the rebound to continue this year even before the President's plan. The National Association of Home Builders projects that without the credit, starts would have risen to 1.2 million this year, from 1 million in 1991. With the incentives, the NAHB projects that starts this year will hit 1.4 million and rise to 1.53 million in 1993 (chart). But that rise comes at the expense of starts in 1994 and 1995.

Congress must still pass the tax plan, but buyer traffic and phone calls to realtors have picked up in some areas. Says Eric Elder, marketing vice-president at Kaufman & Broad Home Corp. in Los Angeles (page 122): "We've had at least one sale written because somebody was confident they could pull money out of an IRA."

Most buyers who need to tap an IRA or could use the extra \$5,000 are likely to wait until the legislation is passed. That means home sales may actually sink in the next few months. And even if the plan exits Congress intact, econo-

mists wonder if the White House is overstating the boost to the housing industry. "There is less family formation going on now than in the past, so there are fewer people who can take advantage of this," says Alan C. Lerner of Bankers Trust Co. In addition, since the plan applies to the purchase of existing as well as new homes, the effect on construction may be muted.

Even if all goes according to plan, the tax credit may make barely a ripple in the economy. The extra cash won't show up until early 1993, and by that time, the recovery should be chugging along nicely. The stimulus might not amount to much, anyway. Even if the government's estimate is correct that 250,000 home buyers would qualify, the credit would pump just \$625 million into the economy in each of the next two years. That's piddling next to the more than \$4 trillion consumers spend each year.

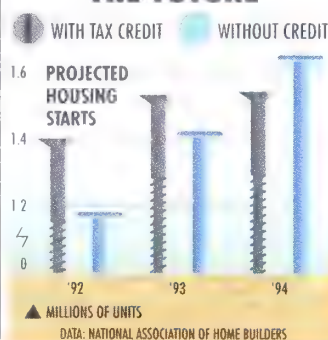
NOT EVEN CLOSE. The tax credit also does little to solve the biggest hurdle to home ownership: amassing the up-front costs, which can total \$25,000 for a \$100,000 starter home. Marcie Adary would rather see some help getting over that obstacle. "It's too hard to save up for a downpayment when you're trying to raise a family," she complains. Adary and her husband, Nadav, have been looking for a home near San Mateo, Calif., for about a month. But with homes in the area selling at around \$300,000, their savings don't come close to covering the closing costs and downpayment. So they're looking into a lease option. That would allow them to lease a house with part of the rent going toward the downpayment.

If the credit market stays spooked, the Adarys may find lots of company in the just-looking category. In early January, 30-year fixed-rate mortgages averaged 8.31%, and 7.78% mortgages were widely available, reports HSH Associates, a New Jersey-based publisher of mortgage data. But by Jan. 30, the average had jumped to 8.83%. The higher rate will keep some families from qualifying for a mortgage.

Despite the recent uptick in mortgage rates, most economists still expect residential real estate to continue its slow mend. The lure of \$5,000 checks may even add some vigor to a shallow housing rebound—for a while. But don't expect it to lay the foundation for a sturdy recovery.

By Kathleen Madigan in New York, with David Greising in Chicago, Kathleen Kerwin in Los Angeles, and bureau reports

BORROWING FROM THE FUTURE



THE YEAR OF CAMPAIGNING CHEAPLY

Candidates aren't raising nearly as much this season. Maybe that's good

Last fall, as Democrats were lining up for the Presidential race, the conventional wisdom said that Bill Clinton, governor of the impoverished, sparsely populated state of Arkansas, would have trouble raising money. Charismatic Senator Bob Kerrey of Nebraska would easily tap Hollywood's mother lode, giving him a headstart in the race. Labor-backed Senator Tom Harkin of Iowa would be bankrolled by unions. And President Bush would have so much fund-raising power that no Republican would dare challenge him.

So much for conventional wisdom. By the end of 1991, Clinton had raised \$3.3 million, including an astounding \$1.5 million in Arkansas alone, according to new data filed with the Federal Election Commission (FEC). In January, despite allegations of marital infidelity that nearly derailed his candidacy, the Clinton campaign pulled in an additional \$1.6 million. Meanwhile, Kerrey's charisma seemed to shrivel in the New Hampshire cold. Through the end of January, he had raised only \$2.9 million. Of that, a substantial \$400,000 came from entertainment-industry moguls, but Clinton is running neck-and-neck with Kerrey in the Southern California money race.

GRASS ROOTS. Harkin, meanwhile, has pulled in \$180,000 from organized labor—a respectable but not awe-inspiring sum. Harkin's total for 1991 is \$2.2 million, not including January figures, which the candidate won't release. A large portion of his money comes from political action committees—\$115,000 at yearend—and from "low-dollar activists," according to a spokeswoman. Harkin's average direct-mail contribution from individuals is \$38. Harkin has done well among Florida's Jewish community and in Iowa, his home state. Aides to Jerry Brown say he had raised about \$500,000 by Dec 31, but names of con-

tributors were not available at the FEC.

The power of incumbency has allowed President Bush to collect \$10 million, more than all his rivals put together. But his grip on GOP purse strings hasn't kept right-wing commentator Patrick J.

Buchanan from mounting a spirited challenge in the New Hampshire primary on Feb. 18. Buchanan used direct mail to raise \$707,000 through Dec. 31.

Candidates don't need huge war chests to compete in New Hampshire. Former Massachusetts Senator Paul E. Tsongas had raised just over \$1 million as of yearend and is struggling to pay the rent on his campaign headquarters. But he's running only a few points behind Clinton in the

at leveraging his early money. Arkansas supporters, including executives of such home-state companies as Tyson Foods, Wal-Mart Stores, broker Stephens Inc., and nursing-home chain Beverly Enterprises, came through with contributions soon after Clinton announced his candidacy in October. Wal-Mart founder Sam M. Walton and 14 other members of his clan gave \$12,000.

UNSUNG HERO. Although individual contributions are limited to \$1,000, Clinton took in no less than \$900,000 from a single December event at Little Rock's Excelsior Hotel. Publicly, Clinton's treasurer, Robert A. Farmer, gets most of the credit for these successes, though until recently he was on leave from the campaign. But campaign sources say the unsung hero is Rahm I. Emanuel, 32, a Chicago native who raised funds for Mayor Richard M. Daley and for Midwestern congressional Democrats. Emanuel tapped into Wall Street's largess with the help of Goldman, Sachs & Co. partner Kenneth D. Brody, whose Dec. 10 party for Clinton attracted dozens of investment bankers, brokers, lawyers—and \$287,000 in contributions.

Kerrey has reached his share of luminaries. The list includes retired IBM Chairman Thomas J. Watson Jr., author Thomas J. Peters, Playboy Enterprises President Christie A. Hefner, U.S. West President Richard D. McCormick, Amerada Hess President Leon Hess, and Enron Chairman Kenneth L. Lay. Kerrey's Hollywood backers include producer Norman Lear, director Lawrence Kasdan, and agent Michael Ovitz. Actor Robert Redford, though, is playing hard to get. So far only Harkin has gotten a check with that famous autograph. Other Democrats would love an endorsement from Redford whose decisions influence many liberal activists.

In all, the top seven candidates have raised just under \$20 million. At this point four years ago, 13 candidates had raised \$10 million. The drop-off is a result of the late-starting campaign, the small field of candidates, and the recession.

Maybe that's healthy. Amid early signs that voters are paying more attention to candidates' messages than to slick, 30-second TV spots, tight money just might produce a campaign that's more than sound bites and fury.

By Paula Dwyer in Washington



Clinton has had the most success leveraging his early money. Among his supporters: Wal-Mart founder Sam Walton and 14 others of his clan, who coughed up \$12,000

polls. Tsongas raised a further \$250,000 in the past 10 days, and he may find fund-raising easier if he wins or places in New Hampshire.

As always in politics, early money can lead to front-runner status, which further opens the cash spigot. Such funds will become vitally important in the three weeks following New Hampshire, when 23 other states hold primaries or caucuses.

Clinton has been especially successful

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THEY'RE SLASHING AS FAST AS THEY CAN

The PC price wars are escalating, and there's no end in sight



RIPE APPLES AT A MANHATTAN RETAILER: MAC CLASSICS HAVE BEEN REDUCED 10%

Can't afford a new personal computer? Wait a minute.

In a sink-or-swim scramble for market share, the industry's top PC makers have escalated a noisy price war. On Feb. 4, both Apple Computer Inc. and Dell Computer Corp. slashed prices by as much as 38%. Apple even made 10% cuts on its inexpensive Classics and dropped 13% off the price of the PowerBook 100, its four-month-old notebook computer. Vows Dell sales chief Joel J. Koehler: "We're not going to take the heat off." Neither is the competition. Zenith Data Systems Corp. is ready to cut prices by up to 26% on its desktop and portable models on Feb. 10.

Those are just the most recent reductions. During the past two months, at least a dozen other companies, from IBM to Compaq to Zeos International, have slashed the suggested retail price on their computers. The results are dramatic. Today, a PC powered by an Intel Corp. 80386 microprocessor can be purchased for \$1,200. That same PC cost \$1,600 just six months ago and \$3,500 a year ago.

Behind all this cutting are executives hell-bent on revenge. PC prices began their nosedive in 1991, when such upstarts as Dell, AST Research, and Zeos began to buy market share from indus-

try stalwarts IBM and Compaq Computer Corp. This year, those behemoths are determined to buy it back. Says William Y. Tauscher, CEO of the ComputerLand Corp. chain of computer stores: "Compaq and IBM know in the bottom of their hearts they have to stop losing market share. And the only way that's going to happen is cutting prices again."

SAVVY BUYERS. To be sure, price cuts are nothing new in the PC industry. As new technologies hit the market, older ones slip in value. Historically, that has meant annual price declines of about 10% on new PCs. But the trend didn't hold up last year, when prices dropped 25%, says International Data Corp. The bottom line: In 1991, for the first time in the PC industry's history, worldwide sales dropped 8.3%, to \$45.7 billion—despite a 4% increase in the number of computers sold.

The competition can only get worse. Today, one in every four people in the U.S. uses a computer. That means not only that there are fewer new buyers

but also that there are more shoppers savvy enough to bargain-hunt beyond such brand names as IBM and Compaq.

Then there's the downward spiral in component costs. Prices on Intel's 386 chips, for example, have plummeted 35% since mid-1991, thanks to new competition from chipmaker Advanced Micro Devices Inc. And a glut in disk drives has caused a 40% price drop in the storage medium in 1991. "There are too many PC companies [and] too many disk drive companies, and there's no differentiation among their products," says Stephen M. Berkley, CEO of computer disk drive maker Quantum Corp. "Layer on that very slow worldwide demand, and you see these huge price declines."

NO LETUP. To cope with lower prices and declining gross margins, PC makers are desperately trying to cut costs. Compaq, for example, has watched its margins plummet from a high of 45% to about 35%. Last year, it posted a \$70.3 million quarterly loss, underwent its first-ever layoffs, and ousted Chief Executive Rod Canion. Now, Compaq vows to come back. New CEO Eckhard Pfeiffer says he has not yet made a decision on whether Compaq will match Dell's new low prices. But he vows to "hang in there and battle it out."

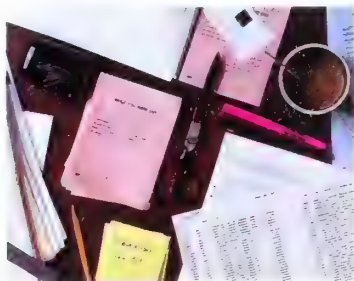
His major rivals are hanging in there with him. Take Apple. The shift to lower-priced Macintoshes forced Apple's gross margins down from 51% at the close of 1990 to about 44% at the end of 1991. But that was offset by a 12.9% reduction in operating expenses—chiefly because of layoffs. The end result: a 10% increase in net income for the quarter just reported and another round of price cuts. Says Robert L. Puette, Apple's president of U.S. sales: "We can continually make our products more price-competitive. And we will."

His determination means some companies have to get hurt. They're likely to be clonemakers without the deep pockets to sustain further cuts. Says AST Research Inc. co-

founder Thomas C. K. Yuen: "Anyone who thinks this is going to blow away hasn't seen the handwriting on the wall." For consumers, that just means that this PC price war will continue to be a bonanza of bargains.

By Kathy Rebello in San Francisco, with Stephanie Anderson Forest in Dallas





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GRADY MITCHELL MAKES EDDIE BAUER CLOTHING BEHIND BARS IN WASHINGTON STATE

THERE'S PRISON LABOR IN AMERICA, TOO

Some 5,000 U.S. inmates are working for private industry

For nearly a year, the Bush Administration has mounted a campaign against imports made in Chinese prisons. But few people seem to realize that in the past decade, a small but rapidly growing private-sector prison labor force has emerged in 21 U.S. states.

Although there are clear differences between Chinese and U.S. prison labor, the parallels can't be dismissed out of hand. China's millions of toiling inmates dwarf the 5,000 or so prisoners who work for private companies here, according to Criminal Justice Associates, a nonprofit research group in Philadelphia. But both countries argue that putting prisoners to work prepares them for civilian life and that inmates should help pay for prison costs. More important, U.S. companies and Chinese exporters share a primary advantage of prison labor: low wages. And since U.S. law bans only imports of prison goods, some companies export them just as China does.

NO COERCION. The main differences—and they're significant ones—between the U.S. and China are that China's population behind bars includes political prisoners and that inmates are forced to work. "No one puts a gun to your head here to make you work," says Criminal Justice Associates President George

Sexton. However, even that distinction may be eroding. Recently, New York has begun to put inmates in solitary confinement for 23 hours a day if they refuse work assignments. Although prison experts say other states are moving in the same direction, no one appears to be using such coercion with prisoners who work for private companies.

Prison factories have existed in the U.S. since the early 1800s. They boomed in the 1870s but were almost completely outlawed during the Depression, when companies and unions protested the cut-rate competition. But Congress never banned prison products such as license plates and furniture that are sold to federal, state, and municipal agencies. Today, some 65,000 inmates make such goods, earning 20¢ to 90¢ an hour, according to prison officials.

Some states began to experiment with private-sector prison work again in the

An outcry over private prison labor in Ohio has legislators considering a bill to outlaw it

1970s. The idea spread after Congress passed a law in 1979 allowing good made in state prisons to be sold across state lines. States now are stepping up their interest as prison costs rise. California, which has one of the most ambitious programs, began using youthful offenders in 1986 to take reservation for Trans World Airlines Inc. In 1990 voters authorized private prison work for adults. Several companies, including a telephone answering service, already have set up shop in California prisons, and officials hope eventually to have 5,000 of the state's 102,000 prisoners on private payrolls.

In attacking such programs, rival companies echo a complaint that the Administration makes about the Chinese: Prison factories can use cheap labor to undercut competitors. Prison officials argue that they encourage work that otherwise would go overseas and that the 1979 law requires them to pay the prevailing wage. But that's not always true. **GREAT DEAL.** Take Exmark Corp., a small packaging company headquartered inside a prison in Monroe, Wash. Exmark employs about 85 inmates to wrap software and other items for companies such as Microsoft Corp. and Nintendo Co. It pays the minimum wage of \$4.20 an hour but no medical benefits and only \$1 a year in rent. Despite the inefficiencies of working in prison, the deal is so good that Exmark just contracted for a second workshop that will employ up to 50 more inmates.

That angers Chuck Egner, the president of PAC Services, a packaging company in Redmond, Wash. He pays an average of \$6.50 an hour, \$1 more in health benefits, and unsubsidized rent. Exmark "can always be 30% under us and our tax dollars support that darn prison up there," fumes Egner.

Cheap prison labor also helps some companies to compete overseas. Nyma Marine Corp. employs about 13 Monroe inmates to make boat lifts, used to moor pleasure boats. The company, whose sales soared 240% in 1991, exports to Denmark, Holland, and France.

Unions don't like prison work, either, particularly if it takes away jobs from workers on the outside. In Ohio, a Japanese-owned company called Weastec Inc. contracted with a state prison in 1989 to employ about 60 inmates to assemble wiper and lighting switches for Honda Accords built in Marysville, Ohio. But the issue has provoked such a political outcry, including a state assembly bill to outlaw all private prison work, that Weastec plans to shift the work to a nearby out-of-prison plant. "The picnickers catch all the arrows," says Weastec plant manager Les Bloedel, who ar

A corn sprout grows from this kernel of truth.



The corn sprout conducts daylight down to its root tip. From there, light controls the young plant's growth.

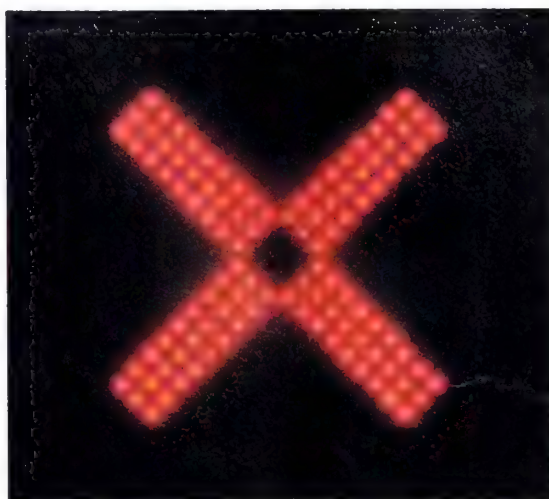
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Top of the News

gues that prison labor has allowed Weastec to bring related jobs to Ohio.

Because U.S. inmates have few other options, many are willing to work for wages lower than they would get on the outside. Still, pay is an issue. Just ask Grady Mitchell, a murderer doing life in Monroe. Mitchell, who makes Eddie Bauer Inc. and other clothing for a garment maker called Redwood Outdoors,

earns a piece rate pegged to the \$4.25-an-hour minimum wage. He pays federal income taxes, plus 15% that the state deducts to help cover the \$23,000-a-year average incarceration cost. It deducts 5% more for "victim restitution," although the money goes into the state's general fund. "I don't think it's fair," says Mitchell. "It's very unclear where that money is going."

China's treatment of prisoners may be objectionable on humanitarian grounds, particularly since political prisoners are jailed. But those who criticize its prison labor per se might be missing what happens in their own country.

By Aaron Bernstein in New York, David Jones Yang in Monroe, Zachary Schiller in Cleveland, and Russell Mitchell in San Francisco

FOREIGN EXCHANGE

REUTERS UNVEILS SUPERTRADING

Its new electronic system may radically alter currency markets

Back in the fall of 1989, the share price of Reuters Holdings PLC was surging. It was an open secret that the company was about to launch an automated trading system that promised to revolutionize the way banks trade currencies. Analysts salivated over potentially huge profits. The only problem: It was never introduced. Software and other flaws forced one embarrassing delay after another.

Reuters shares have been jumping again lately. This time, it doesn't look like a false alarm. Reuters watchers say the company will soon unveil the long-awaited Dealing 2000, Phase 2, a big advance over existing systems. An announcement could come Feb. 12, when Chief Executive Peter Job presents the company's 1991 earnings. Traders at 34 banks in New York and London have been conducting last-minute tests since late January. "We're just waiting for the word to go live," says one trader.

The launch, if it wins favor with currency traders, would be a welcome boost for the London-based company. Reuters has spent an estimated \$80 million developing its new system at a time when the company's profit growth, which averaged more than 25% in the late 1980s, has tailed off markedly (chart).

FAT MARGINS. The two-year delay has been costly for Reuters in other ways, too. Two powerful groups are currently developing similar systems. One, called Electronic Broking Service (EBS), is backed by 11 giant U.S. and European banks, including Citibank, Chemical, and the major Swiss and British banks. Quotron Systems Inc., Citi's information-services unit, is helping with technology. EBS could be available by early 1993.

Financial players in Japan, meanwhile, have another entrant, called MINEX Corp.



LONDON TRADERS: THREE NEW SYSTEMS WILL VIE FOR THE \$600 BILLION-A-DAY SPOT MARKET

Its backers include Tokyo Forex Co., Japan's leading currency broker; telecommunications carrier Kokusai Denshin Denwa; and 18 big Japanese banks. Dow Jones & Co.'s Telerate Inc. unit will market MINEX outside of Japan. Planned launch date: April, 1993.

The target of all three services is the \$600 billion a day traded in the world's spot foreign-exchange market. Banks and currency brokers conduct about half that volume by phone. The rest flows over existing electronic systems, 95% dominated by Reuters.

The present telex-like setups, though, are like Model T's compared with what Reuters and its rivals have in the works. They promise automated matching. Traders will key in prices anonymously, and the best bid and offer will be visible to all market participants. Another trader can execute a trade by simply hitting two buttons. One drawback: If equipment failure leads to broken trades, Reuters plans to let brokers sort it out themselves. MINEX has already said it will handle some liability.

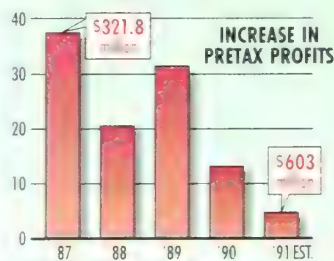
The payoff could be

huge. For the first time, information services companies such as Reuters will be reaping revenues from each transaction, not simply monthly fees for screen rentals. The cost will be about \$25 a trade. That may sound steep, but it's less than half what a broker charges. Analyst Paul Norris of Barclays Zoete Wedd Ltd. in London expects a slow takeoff as traders get used to the system. But in four or five years, he predicts Reuters' system could garnish extremely fat profit margins of 40%.

The three rivals each claim technical advantages for their systems. But the real question is, which one will attract traders want to use? "If a system has liquidity, dealers will use it," says Peter Bartko, chairman of EBS's steering committee. Reuters has the edge there. It's already dominant in forex information, and it will beat its rivals in the market by at least a year. Judging by the stock price, up 40% in just about 20 months, investors are betting that Reuters will be one tough act to follow.

By Mark Maremont in London

REUTERS' SLOWING GROWTH



▲ PERCENT CHANGE FROM PREVIOUS YEAR
DATA: COMPANY REPORTS; HENDERSON CROSTHWAITE ESTIMATES

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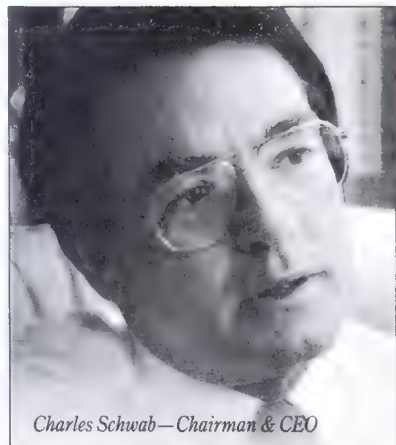
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In Business This Week

EDITED BY HARRIS COLLINGWOOD

VOICE MAIL HANGUPS

Hello. You have reached the In Business This Week graphic. No one is here right now, but if you continue to read this paragraph and the table that follows you'll find that you're not alone in absolutely despising voice mail. Only 5% of those who responded to Plog Research Inc.'s survey say they prefer getting voice mail on their first call to a company. Then the real complaints kick in. So at the tone, read on. Beep.

Top complaints about voice mail	Percent saying they are 'very' or 'somewhat' irritated
Waiting while many options are explained	84%
Getting on wrong path of options	83%
Making mistakes punching in and having to start over	78%
Difficulty in reaching a living, breathing human being	78%

DATA: PLOG RESEARCH INC

MICROSOFT'S CROWDED EXECUTIVE SUITE

► One thing you can say for Microsoft Chairman William Gates: He's consistent—consistently demanding. On Feb. 3, he ousted President Michael Hallman, who has been in the post for two years. Said Gates: "I didn't see him as a match for what the job had grown to."

Evidently, Gates doesn't think any one person is a match for the job. He's filling the office of the president with three longtime Microsoft executives: Steve Ballmer, Michael Maples, and Francis Gaudette.

AMEX FIRES A BLAST AT BANK CARDS

► American Express aimed a powerful salvo at Visa and MasterCard in the credit card

interest rate war. AmEx is rolling out a new system featuring lower revolving-credit rates for Optima customers with clean payment records. For those cardholders, rates will drop from prime plus 7.75 percentage points to prime plus 6 points, or 12.5%.

To qualify for the lower rates, customers have to pay their bills on time for one year and have annual charges of \$1,000 or more. AmEx may gain on bank cards, which often advertise lower rates without telling customers how to qualify for them.

The move also represents AmEx' attempt to put its Optima losses behind it. In the third quarter of 1991, AmEx had \$155 million in unexpected write-offs related to delinquent Optima accounts.

BUSINESS AIRFARES WILL GAIN ALTITUDE

► While Optima is spreading the good news, another AmEx unit is busy giving corporate travel officers something new to worry about. According to the company's yearly travel industry forecast, business airfares this year will jump 10% to 12%.

Hotels and car-rental companies won't get away with similar hikes. A glut of rooms will keep hotel increases between 2% and 4%, according to AmEx' Travel Management Services unit, which produced the report. The rise for car

'THE PASTAFAZOOL-O-MAT ATE MY MONEY'

People who work late inevitably fall prey to the munchies and just as surely suffer terrible pangs of guilt. In the struggle against the vending machine, the machine wins every time, forcing you to choose between chocolate-coated sugar globs or crispy bite-size doses of salt. You know it's no way to eat, but what else can you do?

Well, pretty soon you may be able to feed some coins into a slot and walk away a minute later with a plate of perfectly *al dente* pasta. An Italian company called Vipre is looking for a U.S. partner to manufacture its automatic spaghetti cooker. The machine boils fresh water, measures out 7.5 ounces of spaghetti, heats sauce, and plops it all onto a plate. It requires only one attendant to load the machine daily. Sounds great, but what if you're in the mood for linguini, or some wide, flat, tagliatelle noodles? Sorry. You can have any pasta you like, as long as it's spaghetti.



rentals will be 3% to 5%. Airfares account for 41% of corporate travel costs, hotels 22%, meals and entertainment 27%, car rentals 8%. The remaining 2% falls into that useful category "other."

PACIFIC ENTERPRISES IS PLANNING A SALE

► Pacific Enterprises has decided that natural gas and Nikes don't mix. In a thoroughgoing strategic shift, the Los Angeles-based company, a major gas supplier, is jettisoning much of its loss-plagued retailing operation, including its Big 5 sporting good stores and four other chains. It also

plans to sell its oil and gas wells. As a result of those moves, the company has taken a \$250 million charge against 1991 earnings, leading to a loss of \$191 million.

The Feb. 4 announcement spooked the market and the rating agencies. Moody's and Standard & Poor's downgraded the company's debt, and its stock on Feb. 5 fell 6, to 18%

THE TREASURY TAKES A SHORTER VIEW

► Critics who argue that the U.S. Treasury ought to take advantage of the record low level of short-term interest rates won a small victory on Feb. 5. The Treasury Dept. announced that it will auction \$10 billion in 30-year bonds during its quarterly refunding auction on Feb. 11-13, down from the \$12 billion level of recent offerings.

The \$2 billion difference will be made up by selling more short-term securities. The new mix of securities will be used in future financing, gradually shortening the maturity of U.S. debt from its current six-year average. But Treasury officials insist they're not planning to go much further in reducing the long bond's role.



1992 FASHIONS

Understatement of the year.



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The Accord Coupe 

IS AMERICA'S WORK FORCE BANKRUPT?

Many business leaders believe the answer to that question is a frightening "Yes." They perceive an absence of commitment, a lack of maturity, and the inability to absorb training to be an alarming trend in much of today's youth.

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Transferable skills.

Researchers at Ohio State University found that 50 percent of the people recently separated from the Army had transferred the occupational skills acquired in the military to their civilian employment. This was slightly better than the rate of skill transfer by graduates of business schools and vocational/technical colleges. But beyond occupational skills, soldiers acquire other lifelong qualities.

As a matter of fact, a survey of hundreds of employers, many from Fortune 500 companies, clearly shows that they value the attributes soldiers develop in the Army and will hire young people who are reliable, disciplined and have responsible attitudes toward work.

How the Army Career and Alumni Program helps America.

This year about 150,000 men and women will leave the Army. As they return to civilian life, they bring with them self-discipline, motivation, and technical skills America's work force needs. To help them get a head start on their civilian careers, the Army established the Army Career and Alumni Program (ACAP).

At ACAP Centers around the world, the Army provides training in job search skills for soldiers and their families. Besides facilitating their entry into the civilian world, the ACAP program prepares soldiers to make immediate contributions in their new civilian jobs.

How ACAP can help your business.

While ACAP serves the needs of the soldier, it's also a resource for employers across America. Interested employers may enter their firms into the Army Employer Network Data Base and find out more about ACAP by calling 1-800-445-2049.

It makes sense to support Army recruiting and Army Alumni. The Army will continue to recruit and train high-quality young men and women because they are the key to maintaining America's defense. And the Army will continue to return to the civilian sector capable, mature, highly-motivated young people, ready to Be All They Can Be as part of America's work force.



WHY BUSH IS STILL GROPING FOR A DOMESTIC POLICY

By taking the offensive in support of his modest economic-recovery program, President Bush has halted his slide in the polls and restored some momentum to his reelection effort. But serious problems on the home front could continue to dog his campaign.

Part of the difficulty is that White House Chief of Staff Samuel K. Skinner is still feeling his way six weeks after replacing John H. Sununu. "We're just getting our sea legs," Skinner said recently.

But more is involved here than a green staff chief. Efforts to strengthen key policy positions have fallen short. Turned down by his first three choices to take over the much-maligned White House communications apparatus, Bush gave the job to Marlin Fitzwater. But Fitzwater will stay on as press secretary, so he'll have little time for strategizing and image-making.

HAGGLING. Bringing on a new domestic-policy czar proved even more problematic. The President's choice, Republican Party Chairman Clayton Yeutter, drove a hard bargain, haggling for three weeks. Yeutter wanted assurances that he would be in charge of a new structure that will supersede the Economic and Domestic Policy Groups.

That angered Treasury Secretary Nicholas F. Brady, who opposed any erosion of his policymaking role. In the end, a compromise was worked out in which Yeutter will take charge of the apparatus, but Brady—an opponent of stronger antirecessionary policies—will remain in charge of key economic subcommittees.

Besides all that, Yeutter's qualifications for his new job seem a bit thin. He has been Agriculture Secretary and U.S. Trade Representative and his major distinction in both jobs, as one senior GOP adviser puts it, is that "he doesn't make any waves." Yeutter has little experience in health care, taxes, or other domestic issues that are likely to dominate the election

debate this year. And his lack of expertise will put him at a serious disadvantage when he goes up against Budget Director Richard G. Darman, who'll be fighting to maintain his own influence over domestic policy.

The shakiness at the White House has encouraged Democrats and Republicans alike to pick on Bush in his own backyard. Housing Secretary Jack F. Kemp, who has survived several attempts to curb his criticisms, described some of the new tax proposals as "gimmicks." And an angry Bush sat stone-faced on Feb. 3 as Democratic Governor Roy Romer of Colorado, new chairman of the National Governors' Assn., used a White House photo opportunity to berate Bush's economic plans.

The White House staff should hardly get all the blame for the President's own political misjudgments. "George Bush really believes the economy is rebounding and all that is required is gimmicks to regain the political initiative," says John W. Sloan, a political scientist at the University of Houston. "This idea of large visions for George Bush translates into large mistakes like losing control over the deficit."

And the deeper Bush gets into the campaign, the more serious policy-formation will fade into the background. "It's all very ad hoc," says Arthur Levy, government affairs professor at the University of South Florida. "There is no emphasis on policy development in a second term."

For now, the odds still favor Bush in November. "Let's face it," says Stephen Hess of the Brookings Institution, "Presidents have to screw up pretty damn badly not to get reelected. And the Democrats still look like a bunch of Vice-Presidential nominees." But the real casualty of White House fumbling now may be more serious—the chance to devise a second-term agenda and build a mandate for it.

By Douglas A. Harbrecht



DOMESTIC-POLICY CZAR YEUTTER

CAPITAL WRAPUP

HOMEWORK

The last vestige of Depression-era rules regulating the cottage industry in apparel is about to be abandoned. At the urging of Vice-President Dan Quayle's Council on Competitiveness, Labor Secretary Lynn Martin is planning to overhaul rules that prohibit the home manufacture of women's garments and of jewelry-making that involves hazardous substances. Needle-trade unions won enactment of the regulations—and have long defended them—on the grounds that officials have no way to make sure that home-based operations follow wage, safety, and child-labor laws. Of course, home

workers are also all but impossible to organize. And the end of the ban is one more measure of the waning clout of unions.

SENATE

The peril that involvement in the "Keating Five" savings and loan scandal posed to the career of Senator John McCain (R-Ariz.) appears to be fading. Two new independent polls show that a majority of Arizona voters are now satisfied with the job McCain, who is seeking a second term this fall, is doing. In an *Arizona Republic* poll, however, only 42% of voters said they were "satisfied" or "very satisfied" with fellow Keating Five member

Democrat Dennis DeConcini, but he isn't up for reelection until 1994.

INSURANCE

An effort to have the federal government regulate insurance for the first time is bogged down in intra-industry squabbling. House Energy & Commerce Committee Chairman John D. Dingell (D-Mich.) won little support for a proposal to have the government supervise the solvency of insurers while allowing states to continue regulating rates. Now, insurance executives fear that a new proposal from Dingell providing for federal regulation of big underwriters and state scrutiny of the rest would balkanize the industry.

GERMANY TAKES CHARGE

IT'S USING ITS GROWING POWER TO RESHAPE EUROPE

A few months after the Berlin Wall fell in 1989, Chancellor Helmut Kohl summoned two dozen of Germany's top CEOs to a meeting in Bonn. Hands clasped behind his back as he moved across the room, the 6-foot, 4-inch Chancellor unfolded his vision of a united Germany and detailed how business should meet the historic challenge. Recalls one participant: "He looked just like Bismarck."

To many Germans, that's truer than ever. Like the legendary 19th century "Iron Chancellor," Otto von Bismarck, Kohl wants to make Germany more than just an economic superpower. He wants to shape Europe's very destiny. But that does not mean subjecting Europeans to a harsh Bismarckian rule. "What I want," says Kohl, "is a United States of Europe."

Whether or not Kohl achieves that end, Europe will inevitably take on a more Germanic flavor. Decisions made within the Bundesbank's concrete walls already set what the French pay for car loans. Plans laid in Wolfsburg determine whether Volkswagens will roll out of factories manned by Spaniards or Czechs. "There's no way around it," says the Brookings Institution's Wolfgang H. Reinicke. "Germany is not only the dominant economic player but also the major political power in Europe."

TAME TIGER? That gives many Europeans reason for concern. Germany's abuse of power plunged Europe into two world wars and the tragedy of the Holocaust. Now, some fear the Germans may be once again firing up their ambition to dominate them politically as well as economically. Concedes former French Foreign Affairs Minister Jean François-Poncet: "Germany exists and is powerful, and there's nothing we can do about it."

The reality is more complex. Instead of domination, Kohl is offering Europe a chance to tame the tiger by submerging Germany in a closer-knit European Community. In return, Europeans will have to cede much of their own sovereignty to the EC. The payoff from such German tutelage is the chance to become globally competitive against Japan and the U.S. by adopting Germany's brand of capitalism—more open-market than France's but with higher levels of social welfare than Britain's.

There's a risk to Europeans if they balk. A newly assertive Germany might go ahead and pursue its own national interests anyway. For the first time in decades, Germany has the power to do so. The European Community was created in 1956 to act as a brake on German power. For decades, the Franco-German alliance dominated the EC, with Germany providing

the economic muscle and France the political brains. But now, the Germans are increasingly calling the shots in the very apparatus once intended to contain them. With unification reforming the map of Europe, Kohl wants to influence the political process by harnessing Germany's might to forge the framework of European unity.

The Germans argue that, if for no other reason, they must step out of their shell to protect themselves and their allies. Worries about stability outside the country's borders are real: From Poland to the former Soviet Union, a political power vacuum, economic collapse, and a possible wave of immigration loom on Germany's eastern flank. Meanwhile, elections are coming up in France, Britain, and Italy, where governments are dogged by domestic concerns. And at the same time, American troops are

**Kohl: 'What
I want is
a United States
of Europe'**



pulling out of Europe at a rapid clip.

Even a Germany deep in debt over reunification is the only European power able to bankroll stability. As the post-cold-war world takes shape, Germany has replaced the former Soviet Union as the European power on the way to Asia. Only a few months ago, President Bush offered Germany a "partnership in leadership." Now, U.S. Ambassador to Bonn Robert M. Kimmitt, a confidant of Secretary of State James A. Baker III, has begun citing the value of a new "Ger-

**GERMANY'S
CLOUT IN
EUROPE**





**A LOCOMOTIVE PLANT
IN KIEL: SOME EC
NEIGHBORS FEAR
THEY'RE BEING
RAILROADED**

his plan to create a single European currency—modeled on the mark and governed by a Euro-clone of the Bundesbank. As if that weren't enough to rattle Kohl's allies, the monetary move came even as the Chancellor was forcing his reluctant European partners to follow his lead in recognizing the break-away Yugoslavian states of Croatia and Slovenia.

There is one constraint on how far Germany will go: It can't yet achieve most of its aims without allied backing. The fate of the GATT world trade talks is now in the balance after Kohl failed to persuade France to cut its farm subsidies. So Germany is marshaling the Group of Seven leading industrial nations to step up pressure on Paris. It's clear that the new Europe will largely be forged in the workshops of Stuttgart, the laboratories of Munich, and the banks of Frankfurt—and not the back rooms of Brussels—as Kohl tries to turn economic clout into political power.

All this guarantees that Germany will be the driving force as Europe scraps internal trade barriers at the end of 1992

and pushes for greater integration. This poses a dilemma. If the Germans speak out—as the Americans have urged them to for years—they are quickly criticized. But if Europe's leading economic power refuses to lead, the entire region's prosperity could be endangered.

RUFFLED FEATHERS. Even more dramatic economic and political initiatives will be coming from Kohl. More accustomed to German politics than the niceties of diplomacy, the hulking Kohl sometimes ruffles feathers. On national television recently, the Chancellor dismissed allied concerns over a resurgent Germany as largely "envy." To foreign reporters, Kohl has bragged that by 2000, Germany will be an even more powerful "world economic heavyweight" alongside the U. S. and Japan.

That wouldn't stick in the allies' crawls if Germany were still helping stimulate their economies. But for the moment, Europe's monetary and fiscal house is tilted toward helping achieve German reunification. After four increases since unification, German interest rates are the highest in the Bundesbank's 43-year history. That alone will slow German expansion—and the EC's growth, to 1.5% or less this year from 2.5% in 1991.

To Bonn and Frankfurt, these punishing rates are necessary to defeat inflation. Bundesbank President Helmut Schlesinger, for example, fears that double-digit pay demands by 10 million unionized German workers, from bank tellers to civil servants, risk fanning a "wage-price spiral" in his homeland. Even a last-minute deal on Feb. 3 giving 100,000 steelworkers a 6.4% increase on their \$23 an hour leaves Schlesinger behind on his quest to keep hikes well under last year's 6.5%-to-7% range.

Some European leaders feel that Germany's backing of a single EC currency will inevitably force it to pay its neighbors greater heed in economic decision-making. Therefore, despite the short-

assertiveness" in the pursuit of common goals (page 58).

Indeed, Germany is tiring of being an economic titan but a political dwarf. It is growing more comfortable with pursuing national goals—even if that makes some uneasy. For example, sky-high German interest rates (chart, page 54), posed out of fears that the country's reunification spending boom will set off a wave of inflation, are pushing Europe into recession. Yet in December, Kohl railroaded through the EC summit



POPULATION

83 MILLION

OF
21%



GNP

\$1.8 TRILLION

28%



EXPORTS

\$417 BILLION

33%



IMPORTS

\$408 BILLION

27%

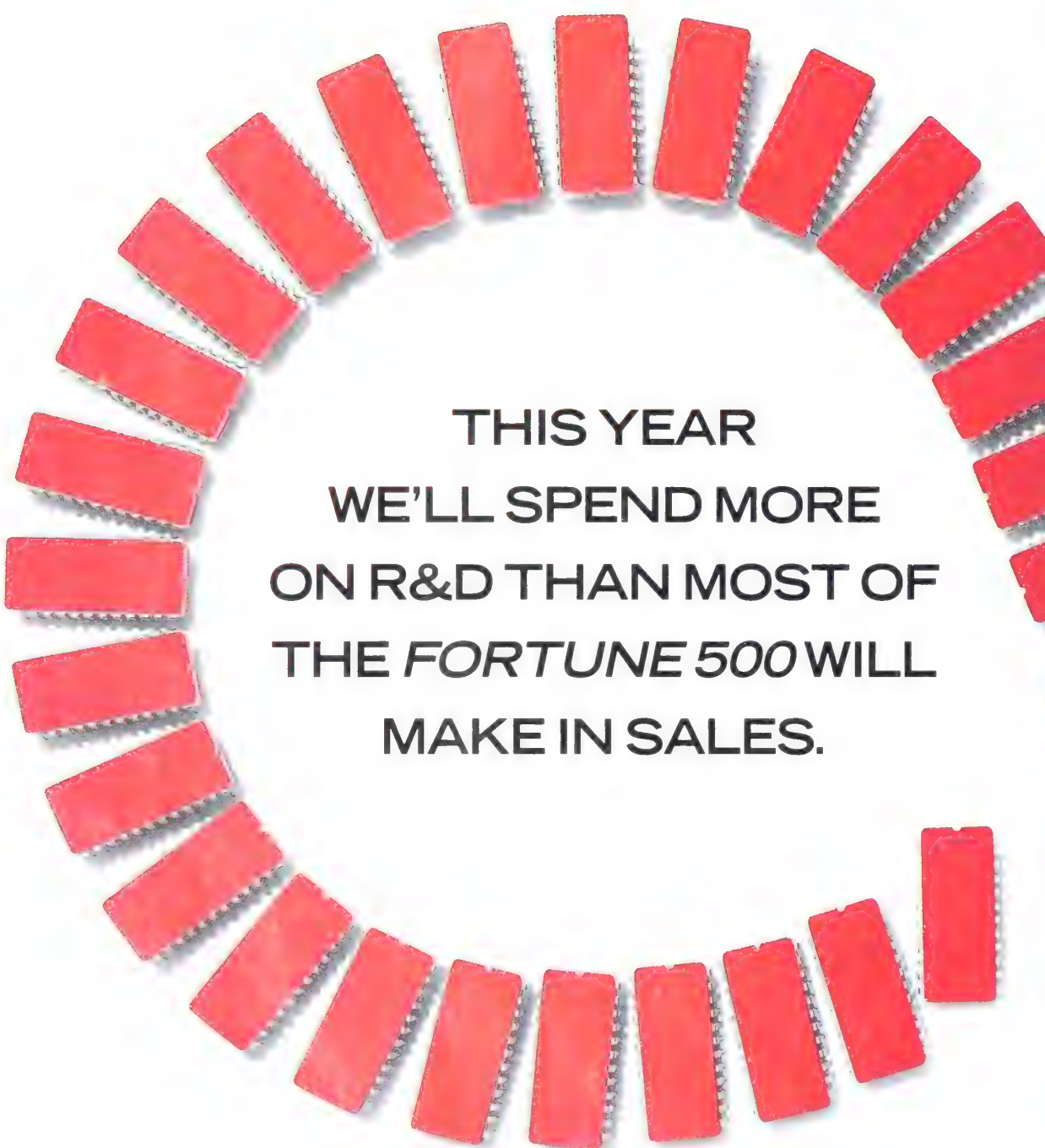


RESERVES

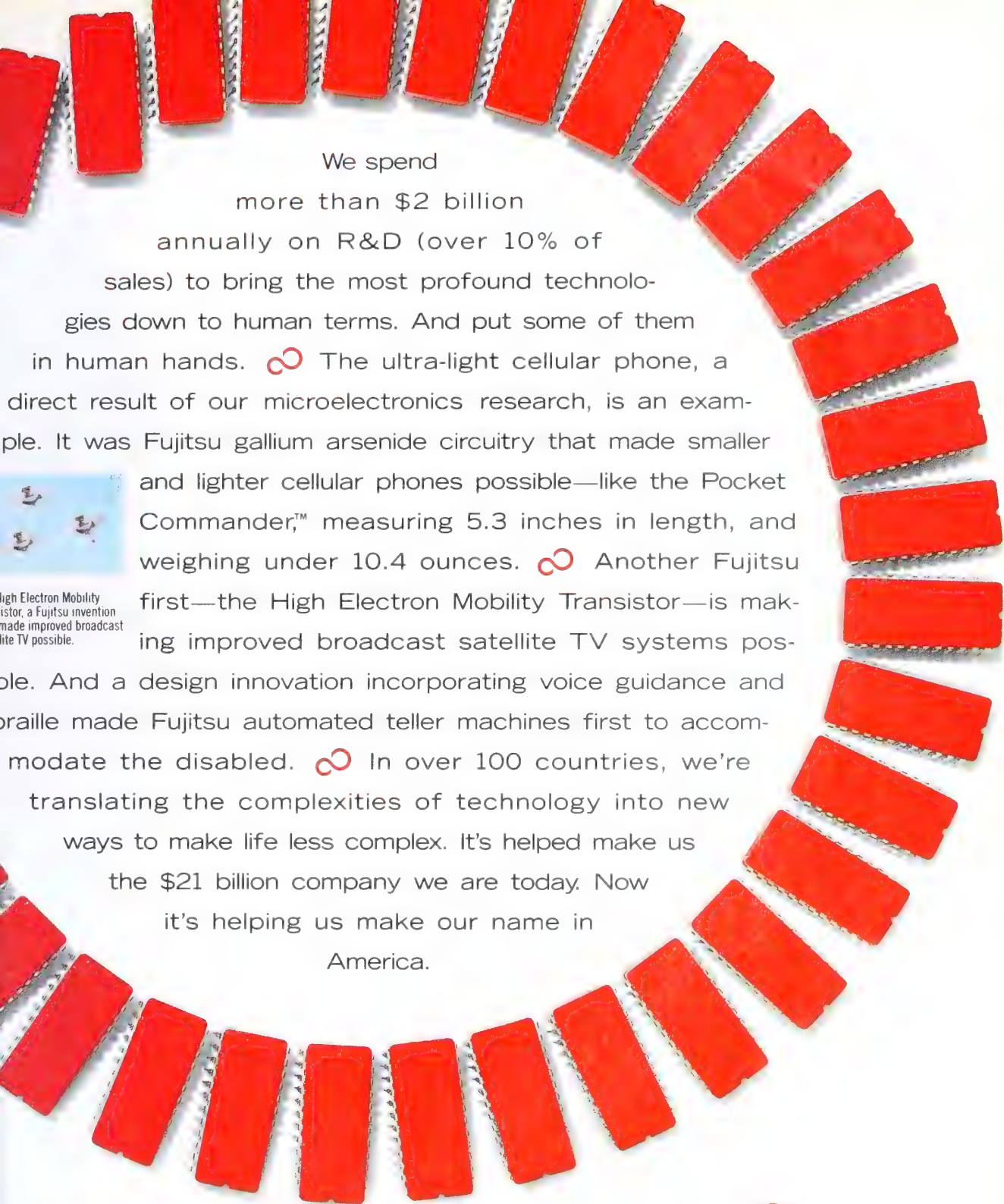
\$68 BILLION

23%

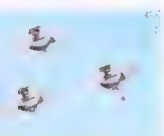
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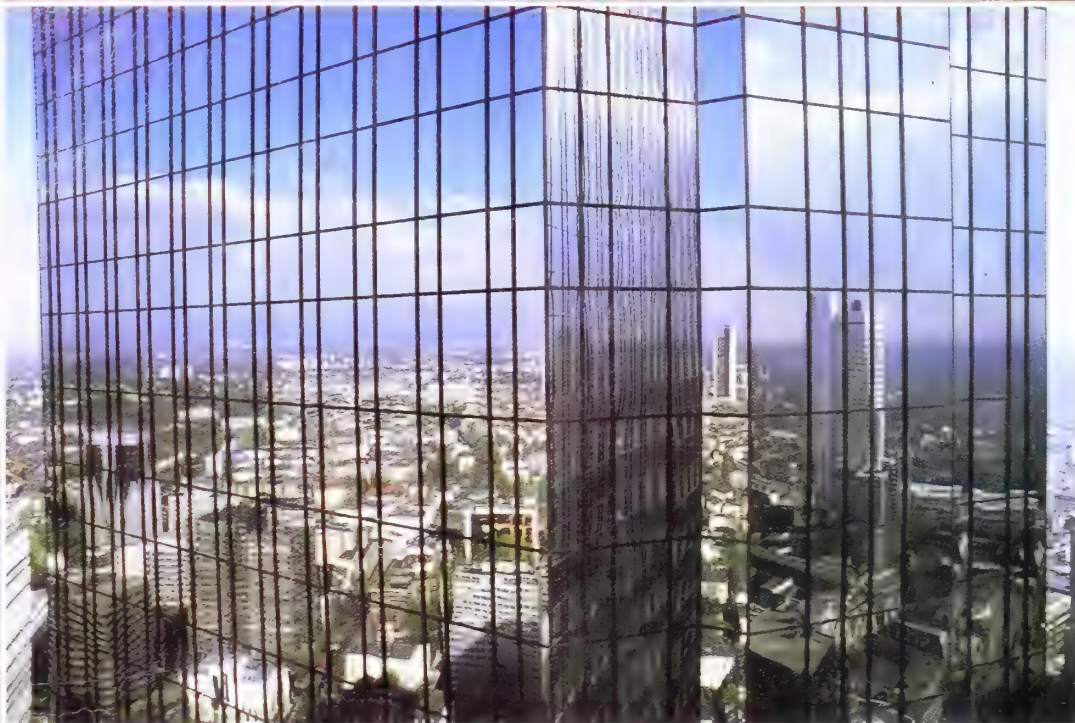
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ways to make life less complex. It's helped make us
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SHIMMERING FRANKFURT: DESPITE ITS MIGHT, THE PRIVATIZATION DEFICIT MAY BE "A TIME BOMB"

ny's economy is likely to grow 10% this year. But nearly 40% of the labor force is unemployed or in make-work jobs. The Treuhandanstalt, the agency privatizing 8,000 state companies, is awash in red ink. By the mid-1990s, its cumulative deficit may be \$280 billion. "It's a time bomb," warns Deutsche Bank Managing Director Ellen R. Schneider-Lenné.

All the same, there are glimmers of hope. VW and General Motors Corp., for instance, are opening plants with cutting-edge manufacturing techniques to make them the most efficient

term discipline these allies are suffering, they will gain an important long-term say in German policy. But that influence may be a while in coming. With a population of nearly 80 million, reunified Germany is 40% larger than Britain, France, or Italy. In fact, with more Europeans speaking German as their native tongue than any other language, Kohl has demanded that it become an EC working language alongside English and French.

One irony is that even though its allies perceive Germany as flexing its muscles, many Germans see themselves as grappling with acute economic headaches. The government is struggling to finance \$100 billion of annual transfers to eastern Germany as well as commitments of \$38 billion to the Commonwealth of Independent States and \$19 billion to Eastern Europe. Coming up with even more cash is becoming harder as German growth slows and its once mammoth payments surplus turns to a \$20 billion deficit.

For its part, German business, facing the highest wage costs, shortest work year, highest taxes, and stiffest environmental controls in the industrial world, is in a funk about its competitiveness. Getting Germany's economy back on track has to be Kohl's No. 1 priority if he wants to achieve his ambitions.

That's certainly the perspective of many foreign man-

ufacturers, who view Germany's vast domestic market as key to their survival. But the dependencies work both ways. Says Chairman Jean-Louis Beffa of French glassmaker Saint-Gobain: "Germany needs Europe as much as Europe needs Germany." In aerospace, electronics, and other high-tech industries, he reasons: "Even Germany isn't big enough to compete by itself with the U. S. and Japan."

MEXICAN MERCEDES? To that end, German manufacturers are spreading their influence—and marks—more widely than ever in a bid to remain competitive. Just as Kohl is attempting to remake Europe, German industry is mounting a drive to remake itself—and Europe—for brutal global competition. Take Daimler Benz. It's searching the world for cheaper alternatives to paying its German auto workers \$25 an hour. In fact, Daimler's next Mercedes-Benz auto plant may go up in Mexico. "Only if it makes economic sense," vows CEO Edzard Reuter, "will we stay in Germany."

Then, there's the headache of reunification. After imploding, eastern Germa-

in the world. With union wages in the East set to rise to Western levels by 1994, the Treuhand has little choice but to woo high-tech investors as the area's salvation. Conceding that even powerful Germany can't rebuild the East without foreign investment, the Treuhand is twisting the arms of Sony Corp. and other Japanese giants to move advanced research and development east.

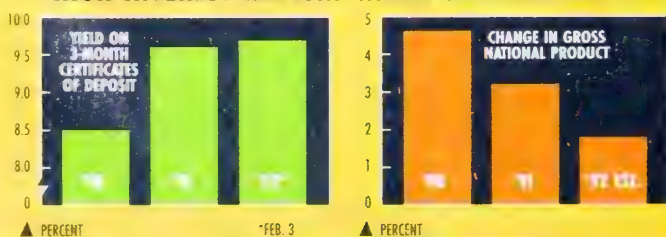
Revived trade with the former East bloc also highlights Kohl's desire to maintain his country's role as the economic bridge between East and West. Despite the woes besetting the crumbling former Soviet Union and Eastern Europe, eastern German companies have already filed applications for \$44 billion worth of government-guaranteed export credits to the region. Existing German commitments are fanning concern among Bonn's allies that the former East bloc will end up as a cheap workshop for Germany. Already, a third of Czechoslovakia's 3,000 joint ventures are with Germans.

Meanwhile, in Western Europe, the Bundesbank's sound-money vise is tightening as Europe's promised one-currency era draws near. In return for surrendering the mighty mark in 1997 and subjecting themselves to the oversight of a new central bank already dubbed the Eur-

GERMANY'S ECONOMIC QUANDARY

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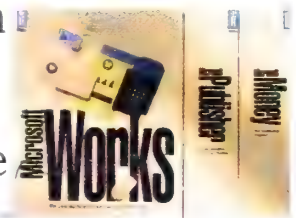
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fed, Bundesbank board members are lobbying Kohl to insist on closer political cooperation within the EC. They argue that a loose grouping of states can't run a currency. Pressure is also increasing to locate the Eurofed in Frankfurt, part of a German campaign to make the city rival London as Europe's money center.

SAFE HAVEN. To attract the foreign investors necessary to make Frankfurt a leading global bourse, Kohl and Finance Minister Theo Waigel are clamping down on Germany's lavish social spending, enacting probusiness tax cuts, and slashing 875 billion in subsidies to

wealthy western states. Kohl can dare to take such risks. Other than two state contests on Apr. 5, Germany—and Kohl—have no elections to worry about until the state, federal, and European Parliament contests in '94. If he wins a fourth term, he could well shape Europe until the end of the century. That would give Kohl the time to horse-trade for more of what he wants, such as making the EC more democratic by giving its regions and Parliament more power. But in turn, Europe's monetary and economic policies would follow Germany's lead.

Far surpassing the goals the World

War II victors set for rebuilding Germany, Kohl and his predecessors have delivered more than four decades of peaceful and prosperous democracy. Now Kohl and his European allies have to figure out how to harness German energy and determination. Like Kohl, French Finance Minister Pierre Bérégovoy insists that "a united Germany must be integrated into Europe." But in so doing Europe is going to become more German, whether it wants to or not.

By John Templeman in Bonn, with Gail E. Schares in Munich, Stewart Toy in Paris, and William Glasgall in New York

Commentary/by Bill Javetski

LEARNING TO LIVE WITH THE NEW GERMANY

For 40 years, Washington called the tune in the Western alliance, and Germany danced to it. But now, with the collapse of the Soviet threat, Germany is emerging as Europe's linchpin. For Americans, the biggest adjustment may be that the U.S. is no longer the major force shaping Europe from the Atlantic to the Urals. Washington may soon be forced to share power, if not follow Germany's lead, at least on European matters.

Despite four decades of generally cordial ties, some Americans find the idea of resurgent German power unsettling. Twice in the 20th century, the U.S. helped vanquish a German military. Now, Americans wonder: Will German power evolve into an economic and diplomatic equivalent of panzers and pincer movements?

With those nagging doubts as a backdrop, Washington is already wrestling to redefine its relationship with Bonn. Says Gregory Flynn of the Center for German & European Studies at Georgetown University: "The U.S. is groping for reference points."

OPEN MARKET. In some ways, a strong Germany is a boost for the U.S. Cultural similarities and centuries of family ties provide an underpinning that America's troubled relationship with Japan lacks. Germany's market is much more open to U.S. goods than Japan's is. And many key U.S. companies hold strong positions in Germany, where the U.S. enjoys a trade surplus.

But while it flexes its muscles in Europe, Germany will naturally make



BUSH AND KOHL: GERMAN INFLUENCE COULD HELP THE U.S. AT THE GATT TALKS

moves that are in its interest—which will make the U.S. and its other allies uncomfortable. One problem is the time bomb of potential refugees. Millions could spill into Germany if attempts at market economics and democracy fail miserably in the former Soviet bloc. If Bonn's allies don't back it up on tough decisions, Germany could well drift.

To his credit, Bush has assiduously pursued a "special relationship" with Germany, despite discomfort among his advisers. In 1990, Washington broke with Britain and France to back German Chancellor Helmut Kohl's strategy for quick unification. The implicit quid pro quo: that Germany lean on France to cut agricultural subsidies and help keep worldwide trade liberalization talks on track. That issue still hangs over U.S.-German ties.

Germany is raising the stakes in for-

eign policy, too. Criticized initially for inaction in the Yugoslav civil war, Bonn later drew flak for recognizing the breakaway Yugoslav republics of Croatia and Slovenia while other European nations backed Serbia. Yet now, Washington is about to get behind the German position. "Not recognizing Croatia and Slovenia isn't a position we're going to hold on to for long," says a senior State Dept. official. That will bring all the allies into line behind Germany—as long as the shaky Yugoslav cease-fire holds.

TRUE COMPETITOR. The tests are likely to get tougher. Germany's economic clout is only growing as Europe moves to a single currency built on the German model. At some point, a European currency based on the mark will stand as the trading unit for 400 million Europeans. For the first time, the dollar will have a true competitor.

It's not too soon for Bush to start preparing the U.S. for a new alliance in which Washington doesn't dominate and may follow as often as it leads. Meanwhile, Bush can test Germany's mettle by continuing to push for help in untangling talks over the General Agreement on Tariffs & Trade. That's crucial for trade globally and for Germany's own security, since freeing farm trade could help Eastern Europe's nascent democracies. Such a partnership could show the way to a new form of Western alliance that would keep Germany engaged in the East—and firmly rooted in the West.

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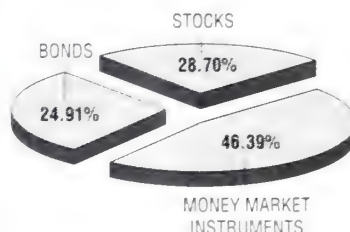
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WHY IS BRITAIN'S CAMPAIGN GETTING SO NASTY SO SOON?

P rime Minister John Major doesn't have to call a general election until July, but it is obvious the campaign is already in full cry. London is festooned with political billboards. Conservative posters warn voters of "Labor's tax bombshell," while Labor fires back with a caricature of Chancellor of the Exchequer Norman Lamont as a tax-mad "Vat-man." The parties are also slapping each other around in the tabloids. Labor MPs have raised the spectre of Watergate-style break-ins at politicians' offices, and some newspapers are charging Labor standard-bearer Neil Kinnock with inappropriately close contacts with Soviet diplomats in the early 1980s.

Why so nasty so early? One reason is that both parties are frustrated by being unable to establish a clear lead. Indeed, polls suggest Britain is heading for its first hung Parliament since 1976—with no single party in control. Such an outcome would force one of the two main parties to form a coalition with a third, the Liberal Democrats. The Liberals, who are pushing for electoral reform and home rule for Scotland, have in turn been shaken by the Feb. 5 acknowledgment of their leader, Paddy Ashdown, that he had an extramarital affair several years ago.

WAIT AND SEE. The prospect of a muddled outcome or even a Labor victory, which many fear would herald big tax increases, may pull down already-low business confidence. That would be bad news in a country struggling to emerge from a 20-month recession and find its niche in a fast-changing Europe. "Consumers are postponing decisions because they are unsure what their aftertax income is going to look like in six months' time," says Martin Taylor, chief executive of Courtaulds Textiles PLC. In addition, overseas investors are putting British plans on hold, according to John Nelson, a director of Lazard Brothers & Co. A case in point: American Telephone & Telegraph Co. recently backed away from talks

with Cable & Wireless PLC, in part over concerns that a new government might change regulations.

A deadlocked Parliament would also cast further doubt on Britain's ability to play a strong role in Europe. Britain will take over the rotating presidency of the European Community for the last six months of the year. With such key European players as France and Germany suddenly beset with internal problems, the presidency needs a zealous advocate to push through the final rules to usher in the single market. But a weak British government may be so bogged down in local issues that it gives short shrift to Europe.



Major is running on the age-old platform that Labor is a tax-and-spend party. The Tories, by contrast, in their March 10 annual budget, will probably announce modest tax cuts—thus paving the way for an April or May election. The centerpieces of another Tory government would be bigger tax cuts and a nebulous Citizen's Charter designed to improve public services. So far, this program has failed to stir the electorate. Kinnock, meanwhile, has won kudos from some industrialists for his commitment to spend heavily on training and infrastructure—although they worry about his plans to raise the minimum

wage and to up the top personal-tax rate from 40% to 59%.

But many executives complain that neither party looks capable of coming up with sound ideas for revitalizing the economy. "The Conservatives have been very complacent on such issues as health service, infrastructure, and management of the economy," says David M. Cohen, finance director of retailer Alexon Group PLC. "But I'm very skeptical that Kinnock & Co. will do any better." That's hardly a cheery outlook for a country that still hasn't found its place in an increasingly competitive Europe.

By Richard A. Melcher in London

GLOBAL WRAPUP

VENEZUELA

The failed Feb. 4 coup attempt in Caracas highlights the risks that painful economic reform programs pose—even in one of Latin America's most stable democracies. President Carlos Andrés Pérez has lifted most price controls, scrapped government subsidies, and spurred foreign investment and the privatization of state industries. Although he has put up some good economic numbers, including 9% growth last year, the benefits aren't reaching the people. Venezuelans believe corruption is way out of hand and that they should be getting more from their oil wealth. Opinion polls show

deep concern about inflation and crime. Strikes have crippled hospitals, courts, and schools in recent months.

Feeling the pinch themselves and hoping to tap popular discontent, rebel soldiers stormed the presidential palace and residence early in the morning and attempted to assassinate Pérez. But the coup attempt was quickly thwarted by loyal troops.

Some analysts now worry that this shock could prompt Pérez to abandon some of his reforms, to appease labor and special interests. But most predict that the tenacious leader will press ahead—as Argentine President Carlos Menem did after a coup attempt in 1990.

GERMANY

The Bonn government is revving up efforts to open the telecommunications market in eastern Germany. The aim is to bring down prices and improve service. Now, several U.S. companies are bidding on a private cellular-phone license—the country's second—to be awarded by yearend. BellSouth Corp. has already teamed up with Germany's Thyssen and Britain's Vodafone. U.S. West Inc. will also be in the field, which will even include prestige carmaker BMW. Germany's first private mobile-phone consortium, which includes Pacific Telesis Group, will begin operations in March.

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The T6400's keyboard is connected to the CPU via a cable that can be removed from the back.

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NOT EVERYONE LOVES A SUPERMARKET SPECIAL

P&G moves to banish wildly fluctuating prices that boost its costs

Ever wonder how that huge stack of paper towels at the end of the grocery aisle can sell at such a low price? Most often, the manufacturer has sold the product to your supermarket at less than the usual wholesale price. In fact, he may even have handed over cash to help promote his product.

Sounds pretty mundane. But as consumers scan the papers for specials on

tions are scarce, so companies are often unable to distinguish their brands in meaningful ways. The short-term solution to this sluggishness has been price-cutting promotions that bring shoppers in and boost sales. In for a penny, in for a pound: As soon as one promotion ends, the pressure builds for another to keep sales numbers on the rise.

The need for a promotion fix gives the

counts and fees, according to Donnell Marketing Inc. That's up from 34% a decade ago.

But it doesn't end there. In a practice called forward buying, supermarket pounce on special wholesale deals and stock up on far more merchandise than they plan to sell during the promotion. Later, they get a wider margin by selling the remaining goods at the regular price. Or, in a practice few will talk about, retailers may "divert" some of the low-priced shipment by selling either to a supermarket outside their area or to a middleman who will do the diverting himself. And you thought selling paper towels was simple (table).

HABIT FORMING. With all the increase in wheeling and dealing, there is mounting evidence that promotions seriously distort the supermarket business. Supermarkets now need warehouses to store

1 For one week only, Super Colossal Products offers a special promotional price on Kleeno detergent to California stores: \$20 a case, or 20% off list price

3 Super Colossal allocates funds to Buy-Now to promote Kleeno. Buy-Now uses some funds for advertising and pockets the rest. It sells only 5,000 cases at a discounted price to shoppers

2 Buy-Now Supermarkets of Happy City, Calif., orders 10,000 cases. Super Colossal expects Buy-Now to use the 20% savings to promote Kleeno by passing the savings on to shoppers

4 Buy-Now later sells 3,000 cases to shoppers in its stores—but back at the usual, higher price

5 Buy-Now sells the remaining 2,000 cases at a slight markup to XYZ Markets in Buenos Dias, Ariz., where Super Colossal has not offered the special wholesale price available in California

THE TRADE PROMOTION TWO-STEP

How one supermarket could profit from promotions



DATA: BW

toothpaste and dog food, manufacturers and supermarkets use these promotions as a battlefield in their nationwide war over the control of consumer-goods prices—and profits. Now, Procter & Gamble Co., one of the mightiest of marketers, is adopting an everyday-low-pricing policy that may put an end to the complexity and cost of this war.

SHELF ASSURED. Manufacturers and supermarkets are duking it out because of two big problems. First, with U.S. population growth slow, large annual increases in consumption are a thing of the past. Second, real product innova-

supermarkets plenty of power. They control the promotions—and the shelves. So the stores demand a wealth of subsidies from manufacturers, who often pay fees for shelf space and allocate more cash for marketing ploys such as "rotos"—the store-sponsored newspaper ads featuring special prices and coupons.

It all adds up. In 1970, manufacturers offered retailers promotional discounts averaging about 4%, according to consultants McKinsey & Co. Now, it's more like 10% to 15%. Some 44% of every dollar spent on advertising and promotion by manufacturers now goes to such dis-

"deal" merchandise, transportation ship it, and office clerks to make sure wholesalers and retailers are getting the most of each deal. According to experts such as Marc C. Particelli, a senior vice president at Booz Allen & Hamilton Inc., these buying operations now account for more than half of supermarket profits.

That leaves manufacturers fuming. Industrywide, Procter & Gamble claims only 30% of trade promotion money actually reaches the consumer in the form of lower prices, while 35% is lost in inefficiencies and another 35% winds up in retailers' pockets. "It's a marketing e-

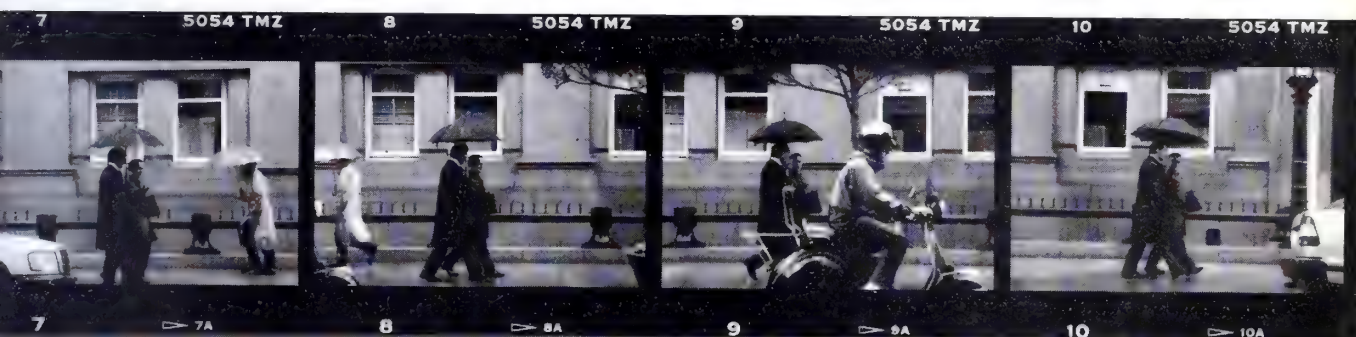


"How's the new proposal?"

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"C'mon, the research alone..."

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3 YEARS	37.0%
2 YEARS	4.9%
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Marketing

pense that's like pouring sand in the ocean," complains a top executive at one big food company.

Worse, factories must gear up to meet the huge swings in demand caused by forward buying and diversion. Both manufacturers and retailers "are always building toward a surge or drawing down after a surge," notes retailing consultant Willard R. Bishop. For the food processing industry alone, the inefficiencies caused just by forward buying may add costs of up to \$3 billion, or 2% of annual industry sales, according to estimates by Walter J. Salmon, a retailing professor at Harvard business school.

Marketers also worry about subtle damage. Most sophisticated consumer product manufacturers, says Best Foods Div. President Robert J. Gillespie, are concerned that the yo-yoing of shelf prices "debases the value of our products" and teaches consumers to shop for what's on sale.

STEADYING DOWN. These concerns are forcing P&G to attempt a cure for promotion sickness. It is sharply reducing the number of steep discounts on wholesale prices that it periodically offers stores. Affected are 40% of its product line, including such stalwarts as Crisco, Cascade, Jif, and Oxydol. But at the same time, P&G has reduced its wholesale list prices for these products. According to analyst Jay Freedman of Kidder, Peabody & Co., P&G has reduced its wholesale list prices by 25% on Oxydol, 13% on Cascade, and 10% on toilet tissue. These adjustments leave the total costs to retailers about the same. P&G is also still offering some promotional funds.

So why bother? P&G hopes lower list prices will cut away the manufacturing and handling inefficiencies caused by deal buying, lead to reduced regular prices on store shelves, and build up brand loyalty among consumers. Says P&G spokesperson: "We essentially saw an erosion in our brand equity, and the strategy is intended to restore the pricing integrity of our brands."

The risk, of course, is that angry retailers may opt to shun P&G products in favor of rivals that continue to offer lucrative deals. And hungry competitors may increase those deals in an effort to snatch shelf space and volume from P&G. Although Procter acknowledges that early on it saw some loss of business, a spokesperson says business has turned up and was "very good" for the last five months of 1991. In the last quarter, P&G's U.S. unit sales were up healthy 5% in most categories.

As for the competition, "I haven't seen either Colgate-Palmolive or Lever Brothers try to take advantage of the situation," says Jules Rose, chairman c

Nightmare Scenario #2

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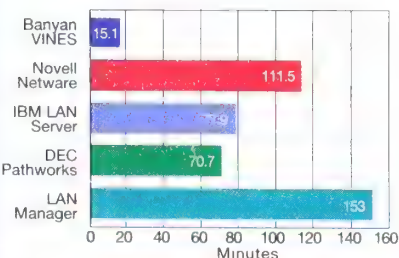
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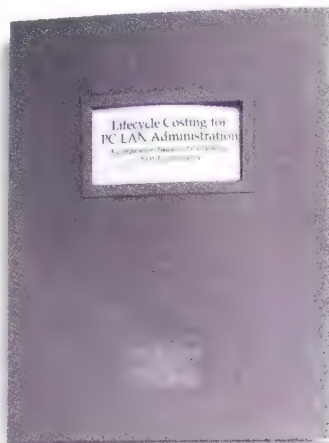


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Marketing

Sloan's Supermarkets Inc. in New York City. Colgate and Lever declined to comment on P&G's actions, but many other manufacturers salute Procter. "It's too bad if people don't take this kind of leadership and follow this statesmanlike position," says Gillespie of Best Foods, which makes such brands as Hellmann's mayonnaise and Skippy peanut butter.

JUNGLE LAW. Past attempts to hold the line on promotions generally haven't been successful, however. Coca-Cola Foods, for instance, tried a similar move with its Hi-C brand in the early 1980s, but rivals grabbed market share by boosting their deals. Ten years later, competitors may find the temptation to boost short-term volume with promotions irresistible. Earnings at many packaged-goods companies haven't proven as recession-proof as the conventional wisdom once held. P&G's salvo is "a gutsy move, but it's a hard thing to do in this environment," Chris Lamb, director of branded cereal trade marketing at Ralston Purina Co., told a recent industry conference.

Some retailers are retaliating by cutting Procter & Gamble orders or going out of their way to promote rival brands

Every year thousands of babies die of choking, suffocating or other breathing emergencies. Don't let yours be one of them



**IF ONLY THEY CAME
WITH INSTRUCTIONS.**



American Red Cross

**Ad
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Most big supermarket chains and grocery distributors are keeping mum. But industry consultants report that some are angered. Because their marketing distribution, and administrative structures are all geared to handle deals, they fear that P&G's new policy could make them uncompetitive with rivals such as Wal-Mart Stores Inc. that already use everyday low pricing.

Some retailers are beginning to retaliate, cutting down on the sizes and types of P&G items they sell or reducing their promotion of Procter's brands in favor of rivals'. Outsiders say Vons Cos., the large California chain, is so upset at Procter's policy that it has refused to stock P&G's new sizes of Pampers. Vons officials were not available for comment.

Still, there are some early signs that P&G has started to change the way the game is played. Sloan's Rose says he recently got a call from a diverter in Denver who was offering a special on Top Job, a P&G cleanser. Because of its new, everyday-low-price strategy, Rose says, "P&G was offering it at 10¢ less per item than he was."

By Zachary Schiller in Cleveland, with bureau reports

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After we acquired Great Northern Nekoosa,
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we are steadily on course.

Georgia-Pacific



SOVIET BREAKUP? COUP? THAT'S MINOR TURBULENCE

British Airways and Aeroflot are determined to see Air Russia fly

For British Airways PLC, doing business in the former Soviet Union has had all the drama, complexity, emotional extremes, and sheer length of a Russian novel. It was October, 1990, when BA Chairman Lord King and Boris Y. Panyukov, the Soviet Civil Aviation Minister and chairman of Aeroflot, revealed plans for the launch of a new international airline, dubbed Air Russia, by 1992. But 15 months later, the Civil Aviation Ministry no longer exists. Panyukov has dropped from the picture, and projected costs of \$700 million have shot up to \$850 million. Now the partners say Air Russia won't get off the ground before 1994.

Bad news? Not back in the former Soviet Union. "From my point of view, the situation is positive," says Nikolai N. Pechnikov, chief of Aeroflot's joint venture division. "This project has survived all of the problems we have been going through." Aeroflot pilots are already in Britain, training under the aegis of British Air. And BA has agreed to renovate Moscow's ramshackle Domodedovo Airport. But a major piece of the puzzle remains: money. BA and Aeroflot say they hope to have initial financing in place by March. "BA is breaking new ground," says one European banker. "This is the kind of big, high-profile deal we'd like to do."

Still, getting the loans is exceedingly difficult, both partners are forced to admit. Banks have become increasingly nervous

about lending money to ventures in the former Soviet Union since the collapse late last year of Vnesheconombank, the Soviet foreign trade bank that provided all guarantees for project financing. But the fact that the venture has survived at all is testament to how badly both BA and Aeroflot officials want Air Russia to fly. For Russia, which has taken over

the joint deal, the new airline will be the crown jewel in the fledgling privatization plans of Aeroflot, which controls airports, cargo operations, and hotels, in addition to a fleet of 2,000 planes. For BA, the venture would expand its international service, giving it a substantial lead over other carriers, such as American, Air France, and Japan Air Lines, which have become noticeably more cautious about the region.

Given the trials and tribulations of British Air, it's easy to see why. As early as 1987, BA saw opportunities to expand its presence in the Soviet market. At first, BA was to provide Aeroflot with an array of support services. Little came of it. BA then joined a British consortium hoping to overhaul Sheremetyevo International Airport but lost out to Luft hansa. In 1990, BA helped Aeroflot explore other opportunities, from a new reservations system to plans for a shuttle service from Moscow to Leningrad and Kiev, modeled on BA's own in Britain.

SOMETHING RADICAL. Eventually it became clear that Aeroflot's inefficiencies—an outmoded fleet, abominable customer service, no cost controls—required something revolutionary. BA proposed a new airline. The only problem was, other carriers were approaching Aeroflot with a similar idea. John Borkowski, BA's strategy chief and top negotiator, needed something radical to set BA apart. Although BA had minimal experience in airport renovation, Borkowski proposed that it construct a new 125,000-square-foot terminal at Domodedovo and modernize the rest of the decaying airport. BA officials were reluctant. But the terminal would provide jobs and hard currency and head off doubts by Aeroflot that the deal was stacked in BA's favor. Says Borkowski: "I didn't see how we could make the project work without it."

Once BA agreed, it seemed every bureaucrat from Moscow to



OTHER LINKS WITH THE REPUBLICS

AIR FRANCE Plans to set up new catering, freight handling centers in St. Petersburg for Aeroflot

AER LINGUS Carries passengers from Ireland's Shannon Airport to New York as part of joint Belarus Airlines' new Minsk-Shannon-Moscow service

AMERICAN AIRLINES Sister company AMR Information Services, with IBM, doing \$5 million feasibility study for reservations automation

project for Aeroflot; consulting with Lithuania Airlines

FINNAIR Forming airline with Aeroflot to operate from St. Petersburg

LUFTHANSA Heads consortium to refurbish Moscow's Sheremetyevo Airport, build new terminals and a hotel, for \$470 million

NORTHWEST AIRLINES Testing satellite-based navigation system for use over Siberia

DATA: BW



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Industries

Minsk wanted a piece of the action. At one point, BA had to gently rebuff an influential Russian official who wanted to use Air Russia to promote the sale of Russian airplanes to the West. His idea was to use Russian planes fitted out with Western engines, yet he had no idea when the planes could be delivered.

And the venture was continually buffeted by ill winds from Soviet political storms. A crackdown in the Baltics last January put the deal into deep freeze for months. By spring it was back on track and it formally was registered on July 26. But three weeks later came the coup. "Frankly, we said goodbye to each other," recalls Pechnikov. The coup collapsed, and talks picked up without skipping a beat.

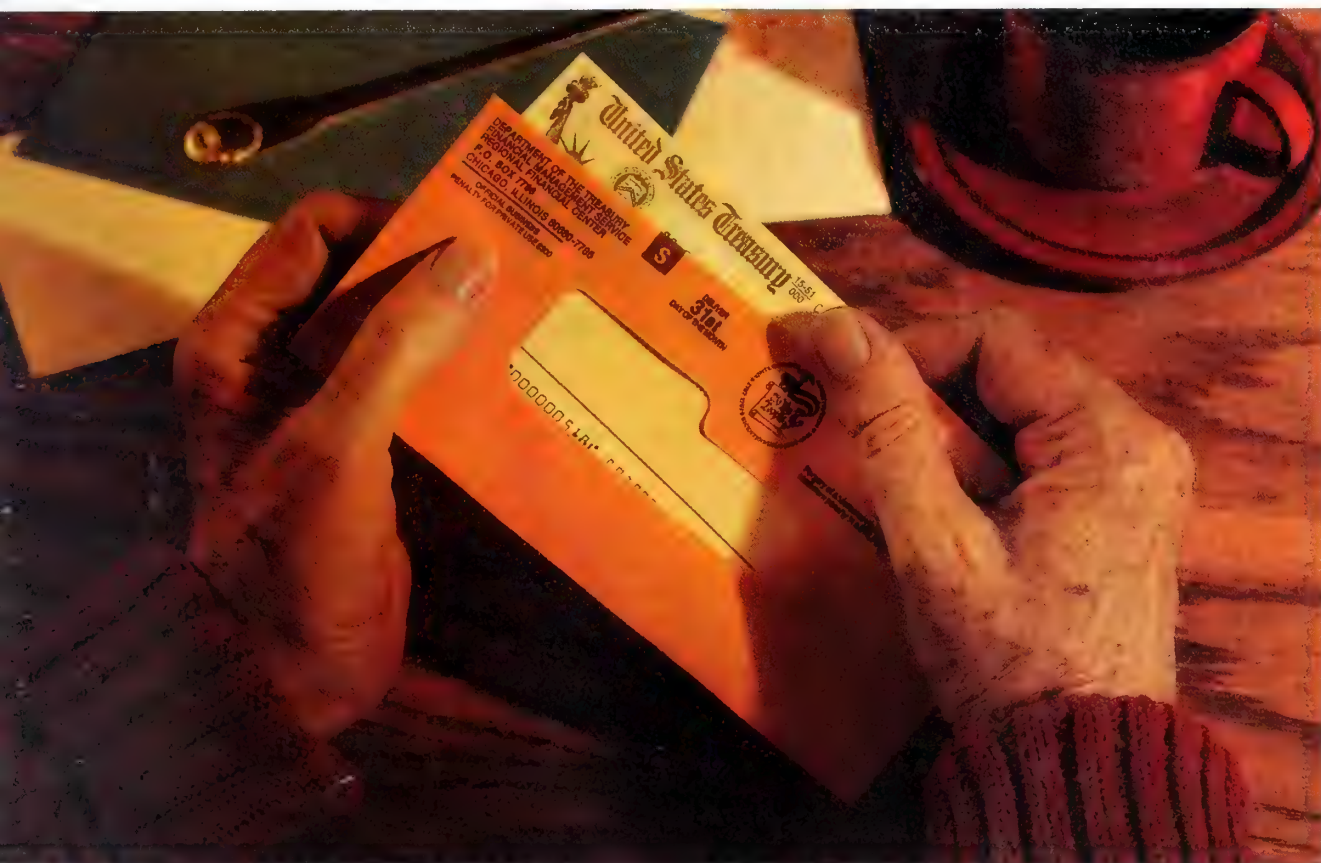
Borkowski and his team also had to get used to the idea that the Russians knew little about their own airline. "We would ask questions about the number of hours planes spent on each route," recalls Borkowski, "and they would look at us blankly." The Russians were no without a sense of humor, however. When a BA team member asked about the value of the Aeroflot fleet, an Aeroflot official threw up his hands and said "How about 2,000 Marlboros?"

FEAR OF COMMITMENT. The banks thinking about financing the venture are unlikely to find that answer very funny. Without Vnesheconombank to guarantee loans, BA is trying to spread the risk. The partners have hired financial adviser Spectrum Capital Ltd. and have approached the World Bank and the European Bank for Reconstruction & Development for financing. To make the deal more palatable, Air Russia will keep ownership of the planes offshore, where creditors will have an easier time getting at them in the event of default. Yuri A. Lebedev, chairman of the Russian Republic Innovation Fund, a part owner of Air Russia, says the idea is to build a "soft financial structure." Partners from jet-engine maker Rolls-Royce PL to BA to Boeing, which will supply seven 767s, will share the risk.

As the deal stands, BA will take 31% with 69% distributed among Aeroflot, Domodedovo Airport, and the Russian Republic Innovation Fund. Daily flight from Moscow to London should begin in January, 1994, adding such cities as Tokyo, Paris, and Seoul during the year. Service to New York, Milan, and Osaka will follow. A financial plan calls for Air Russia to break even in 1997. Such projections seem pie in the sky, given the uncertainty in the region. Then again it's that kind of optimism that has taken Air Russia this far.

By Richard Melcher in London and Ros Brady in Moscow

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AND THE WINNERS ARE...

A HANDICAPPER'S GUIDE TO THE HIGHEST-ACHIEVING EQUITY FUNDS

Julian A. Lerner launched the Charter Fund in 1968 with a dream that it would one day have a \$25 million portfolio. But the fund nearly folded during the 1970 bear market, and for many years, a strong record didn't prevent investors from pulling more money out than they put in. Even at the end of the roaring '80s, Lerner's fund remained a pip-squeak in a world of giants, with only \$77 million under management.

Then came the avalanche. In 1990, AIM Charter, as the fund is now known, made money when most funds didn't and caught the eye of inves-

tors. By the end of 1990, AIM Charter had \$122.9 million in assets. In 1991's bull market, Lerner chalked up a 37.8% total return. Now, the fund is more than \$650 million, and cash is still coming in at a rate of \$3.5 million a day.

CASH FLOW. Lerner has plenty of company. In December alone, new money flowing into equity mutual funds totaled \$7.4 billion, easily beating the previous record of \$5.9 billion set in January, 1987. And the buying binge is not over. By most counts, January mutual-fund sales—to be reported the last week of February—will far exceed December's.

The deluge of dollars is widespread. Twentieth Century Funds, for instance, is taking in about \$20 million a day. The Kansas City (Mo.)-based fund-management company took 32 years to get \$8 billion in assets—and just one more year to double, to nearly \$16 billion. The top-performing Kemper Growth Fund is now drawing in \$4.5 million a day, vs. about \$600,000 a year ago.

It's easy to explain the buying frenzy. Interest rates are at the lowest level in a generation, and returns on certificates of deposit and money-market funds are paltry. Just as important, 1991 was a



**JANUS TWENTY
FUND'S MARSICO:
BIG BETS**

THE TOP P



Fund	Average annual total return*	Objective	Risk
AIM CHARTER	18.8%	Growth/Income	Low
AIM WEINGARTEN	20.8	Growth	Average
ALGER SMALL CAPITALIZATION	25.7	Small company	High
BERGER 100	25.5	Growth	High
CIGNA VALUE	19.7	Growth/Income	Average
DEAN WITTER AMERICAN VALUE	17.2	Growth	Low
DREYFUS STRATEGIC INVESTING	19.0	Growth	Low
DREYFUS THIRD CENTURY	16.2	Growth	Low
FIDELITY BALANCED	12.3	Balanced	Very low
FIDELITY CONTRAFUND	22.3	Growth	Average
FIDELITY SEL. BIOTECHNOLOGY	33.0	Health care	Average
FIDELITY SEL. FOOD & AGRICULTURE	22.6	Specialty	Low
FIDELITY SEL. HEALTH CARE	28.6	Health care	Average
FIDELITY SEL. MEDICAL DELIVERY	27.1	Health care	High
FIDELITY SEL. TELECOMMUNICATIONS	19.4	Utilities	Average
FINANCIAL INDUSTRIAL INCOME	18.7	Equity-income	Low
FINANCIAL STRATEGIC HEALTH SCIENCES	36.7	Health care	High
FPA PARAMOUNT	17.7	Growth/income	Low
GABELLI ASSET	16.6	Growth	Very Low
IAI REGIONAL	17.2	Growth	Low

ollar year for stocks, and the average diversified fund handily beat the market, delivering a spectacular 37.3% total return, vs. 30.4% for the Standard & Poor's 500-stock index (table, page 76). Health care funds shot out the lights, up 78.3%. That's the third year in a row that such funds led the mutual-fund performance derby. They invest in everything from major drug companies such as Merck, Glaxo, and Pfizer down to speculative biotechnology startups. The Openheimer Global Bio-Tech Fund delivered the year's highest returns, up 111.1%. Health care stocks contributed to the success of diversified funds, too. But investors didn't have to own health care funds to make a bundle. Rumbling interest rates improved the prospects for financial-services companies, so their stocks—and the mutual funds that invest in them—soared. Technology funds gained 49.3%, even while computer stocks such as IBM and Digital Equipment Corp. languished. Most important, funds that invest in small companies blossomed with an average 51.5% return.

Can mutual funds keep up these surges in returns? Don't look for 30% every year—or even 20%. During the 1990s, equity funds delivered about 15% a year, on average, and that was consid-

ered hot stuff. The long-term average return from equities is 10.4% a year.

But by investing judiciously in the right funds, mutual-fund investors don't have to settle for average. That's why we bring you the 1992 BUSINESS WEEK Mutual Fund Scoreboard. To aid your fund search, we are adding 130 funds, bringing the total to 760.

STEADY SUCCESS. The scoreboard is a trove of funds' vital statistics: returns for the last year and, where available, for the last 3, 5, and 10 years; sales charges and expense ratios; and portfolio data such as price-earnings ratio, largest holdings, and risk. To help you find the best funds, we measure returns for the last five years, adjust them for risk, and assign ratings. This year, 41 funds earned three upward-pointing arrows, BUSINESS WEEK's highest accolade (table).

Some of the best funds share portfolio managers. AIM Charter's Lerner, for instance, also runs Olympus Stock Fund. The Janus and Janus Venture funds are managed by James P. Craig. John Kaweske runs two strikingly different winners: the conservative Financial Industrial Income and the high-flying Financial Strategic Health Sciences.

Kaweske's health care portfolio earned a 36.7% average annual return

over the last five years and a staggering 91.8% in 1991. Six of BW's top-rated funds are health care portfolios.

Don't look for a repeat of 1991's spectacular results, but health care funds will continue to make money for their investors, despite political pressure for national health insurance and cost containment. "If you go to some sort of national health care system, it will increase the demand for services," says Kaweske. "There will be 37 million people not covered by health plans who would be. Health care is still going to be a growth industry."

Investing in growth stocks has been a winning strategy for the past several years, as the recession took its toll on such cyclical industries as autos, chemicals, and paper. That's how the many growth funds—such as AIM Weingarten, Berger 100, IDS New Dimensions, and Twentieth Century Growth—won the highest BUSINESS WEEK ratings. They don't invest in any one industry but search for companies in industries that are not tied to the business cycle.

These diversified funds will likely stick to their traditional growth-stock holdings even when the economy improves. "We're looking for low economic growth and low inflation," says Michael Arends, co-portfolio manager of the

FORMERS



Of the 760 funds in BUSINESS WEEK's Mutual Fund Scoreboard, these 41 have earned three upward-pointing arrows, the highest rating for risk-adjusted performance over the last five year period

EX	23.8	Growth	Average
EX II	24.5	Growth	Average
NEW DIMENSIONS	21.1	Growth	Average
NUS	20.3	Growth	Low
NUS TWENTY	22.0	Growth	Average
NUS VENTURE	20.7	Small company	Low
EMPER GROWTH	21.6	Growth	Average
EMPER INVESTMENT PORT. GROWTH	18.8	Growth	Average
OTHERS	14.0	Growth	Very low
ONETTA	20.1	Growth	Average
YMPUS STOCK	19.6	Growth	Average
PENHEIMER DISCOVERY	21.7	Small company	Average
X WORLD	13.8	Balanced	Very low
THAM HEALTH SCIENCES	23.2	Health care	Average
QUOIA	15.5	Growth	Low
AGECOACH ASSET ALLOCATION	11.9	Asset allocation	Very low
EMPLETON FOREIGN	17.9	International	Low
ENTIETH CENTURY GROWTH INVESTORS	22.0	Growth	High
ENTIETH CENTURY ULTRA INVESTORS	27.5	Small company	Very high
AA MUTUAL INCOME	11.2	Income	Very low
NGUARD SPECIALIZED HEALTH CARE	23.8	Health care	Low



AIM CHARTER'S LERNER: A 38.7% TOTAL RETURN

*1987-1991
DATA: MORNINGSTAR INC.



PAX WORLD'S BROWN: RARELY A LOSING YEAR



Cover Story

Kemper Growth and Kemper Investment Portfolio Growth funds. "In that environment, stocks with steady earnings growth will win out."

Many growth-fund managers spread their money across hundreds of stocks. Not Thomas F. Marsico, who runs the Janus Twenty Fund. He makes big bets. About 75% of his \$1.5 billion fund is in just 20 stocks, some of which are BankAmerica, Medco Containment, and Waste Management. "It's really not as risky a strategy as you think," says Marsico, "as long as you're diversified among industries." Marsico also runs two other top-performing funds, IDEX and IDEX II.

At the other end of the spectrum is the Gabelli Asset Fund. Portfolio man-

products that are in demand, enjoy high returns, and work for their shareholders." His holdings include Amgen, Conrail, and Loctite.

The top-performers list also includes Pax World Fund, with modest results—an average annual return of 13.8% for the last five years—but high ideals. The fund, says Anthony S. Brown, the founder and portfolio manager, "invests in life-affirming companies." Tobacco, defense, alcoholic beverage, and gaming stocks are taboo, as are companies with ties to South Africa. Brown won't buy U.S. Treasury bonds, either, "since the money could be used for the military."

Some funds, such as Pax World, Fidelity Balanced, and Mathers, earn top honors along with the barn-burners even if

"Most of our shareholders own other funds and see us as a hedge, sort of an insurance policy."

Unlike Van der Eb, most fund managers are investing their inflow as quickly as they can. Such cash is, in part, what's driving stock prices and, in turn, mutual fund performance. A fund manager who keeps buying his favorite stocks with new money, in effect, helps to reinforce his success. But at some point, most money managers have to find new investment opportunities. And generally the larger the fund gets, the harder it is to find enough gems to keep producing fat returns. True, the success of the Fidelity Magellan Fund, with \$19.2 billion and 5.3% of all equity-fund assets, has laid to rest the myth that big funds can't

RICH RETURNS FOR MOST EQUITY FUNDS

In 1991, the average diversified fund delivered a 37.3% return



Fund objective	Total return				Best performing fund in 1991
	1991	1989-91*	1987-91*	1982-91*	
HEALTH CARE	78.3%	47.2%	29.1%	27.4%	Oppenheimer Global Bio-Tech
FINANCIAL	60.4	19.9	13.6	16.2	Financial Strategic Financial Services
SMALL COMPANY	51.5	19.5	15.2	14.7	Montgomery Small Cap
MAXIMUM GROWTH	51.3	22.3	15.9	15.3	Kaufmann
TECHNOLOGY	49.3	21.6	14.9	14.6	Financial Strategic Technology
GROWTH	37.0	18.5	14.5	16.1	CGM Capital Development
INCOME	30.4	13.0	10.7	13.7	Kemper Diversified Income
GROWTH/INCOME	29.1	15.8	12.7	16.0	Vista Growth & Income
EQUITY-INCOME	26.9	13.7	11.2	15.6	Fidelity Equity-Income II
BALANCED	25.5	13.9	10.6	15.5	Twentieth Century Balanced Investors
SPECIALTY-MISC.	23.0	17.3	15.1	NA	Fidelity Real Estate Investment
UTILITIES	21.0	16.1	12.5	16.8	Fidelity Sel. Telecommunications
ASSET ALLOCATION	20.9	12.5	10.3	NA	Dean Witter Strategist
OPTION	18.9	12.8	10.6	11.5	Shearson Option-Income
INTERNATIONAL	15.1	7.9	9.8	15.8	Templeton Smaller Companies Growth
NATURAL RESOURCES	5.7	10.3	10.7	8.5	T. Rowe Price New Era
PRECIOUS METALS	-2.1	-1.3	2.7	5.3	Freedom Gold & Government
DIVERSIFIED FUNDS**	37.3	18.0	14.1	15.8	
ALL EQUITY FUNDS	33.1	16.7	13.5	15.7	
S&P 500	30.4	18.5	15.3	17.5	

*Average annual

**Investing in U.S. markets

NA Not available

DATA: MORNINGSTAR INC.

ager Mario J. Gabelli is a classic "value" buyer, looking beyond a company's reported earnings (or lack thereof) to its intrinsic value—franchises, real estate, cash flow, or other hidden assets. Such a strategy proved to be dynamite in the 1980s, since the takeover binge centered on such "undervalued" companies. Such stocks are often in cyclical businesses, and for that reason, the stocks have been laggards in recent years. An economic recovery will spark funds such as Gabelli Asset.

'LIFE-AFFIRMING.' Somewhere between the extremes of growth and cyclical stocks is Richard Shields's Dreyfus Strategic Investing fund. "I don't see the world as split between growth and value," says Shields. "I buy companies with

they don't earn big bucks. The reason: They rarely have a losing year. And a big part of making money over the long haul is not having to make up for periods of big losses.

That's the calling card of the Mathers Fund, which is on the list for the second time. Portfolio manager Henry G. Van der Eb Jr. skirted the 1990 bear market by keeping the portfolio almost entirely in cash and earning a 10.4% return. But, concerned about high stock prices and the debt-laden financial system, he watched the 1991 bull market largely from the sidelines and still has 82% of his assets in one-year Treasuries. Mathers had a relatively scant 9.4% return for 1991 but receives \$500,000 to \$1 million a day in new money. Says Van der Eb:

earn handsome profits. Still, while Magellan often beats the S&P, it does so by a smaller margin than in earlier years.

Some analysts fear that many new fund investors are stock-market tyros who may bolt at the first sign of trouble. But A. Michael Lipper of Lipper Analytical Services Inc. thinks most of the money is here to stay. "This is patient capital," says Lipper. "People don't really redeem funds except for tuition, retirement, or estate needs." Even in October 1987, equity-fund redemptions were only \$5.9 billion, just 3.2% of assets.

But patient capital should also be smart capital. Markets are volatile, and investors need to build portfolios that will meet their financial goals and still allow them peace of mind. That means

lecting a variety of funds. For instance, while international funds—except for the Templeton Foreign Fund—have vanished from the BW top-performers list, most investors could benefit from some non-U. S. investments. Not many years ago, it was the global funds that left the domestic ones in the dust. It doesn't hurt to have a fund that goes while others zag. Keep that in mind as you examine the BUSINESS WEEK Mutual Fund Scoreboard.

To get an idea of how the scoreboard works, turn to page 84 and look for the AIM Charter Fund. Note the figure next to the name. That indicates the portfolio manager is an old pro, on the job for more than a decade. Next comes the BW performance rating, with three upward-pointing arrows, the highest rating. The following column, "Objective," is the fund's investment goal. In this case, it's "Growth/income": The fund tries to generate income and capital appreciation.

LOAD OR NO-LOAD. The next two items, "Size" and "Fees," are straightforward. Note that AIM Charter had \$586.9 million at yearend 1991, a 377% increase in assets. That wasn't all the result of the manager's prowess. "Current Results" show AIM Charter was up 37.8% in 1991—that's capital appreciation plus reinvestment of dividends and capital gains. So you can surmise most of the asset gain came from new money. AIM Charter is a "load" fund, with a 5.5% sales charge. You don't have to pay a load to invest in all mutual funds. Indeed, the Scoreboard includes 249 no-load funds. Load or no-load, all fund investors pay expenses—management fees, legal fees, administrative costs—and that comes out of the portfolio. In this case, it's 1.29%, or \$1.29 for every \$100 in the fund. The average is 1.34%. Now, move to "Rank Within Objective." That tells how AIM Charter's 1991 returns compared with other growth/income funds. In this case, it's pretty good, No. 13 out of 116. Go on to the "Trend" column. Each box represents a 12-month period. The fund was bottom-ranked in the first period but improved its relative standing in each successive period. In the last 30-month period, AIM Charter was in the top 25% of all funds. Next, look at "Portfolio Data." AIM Charter had 23% of its assets in cash at yearend; clearly, the manager is cautious. The p-e ratio, the next item, is 19.9, which is a bit higher than the average of 20.6. The "Largest Holding," the next column shows, was Pfizer Inc., and that represented 3% of the fund's assets. Finally comes the "Risk," which is "Low." That shows it isn't necessary to take big risks to earn big rewards.

By Jeffrey M. Laderman in New York

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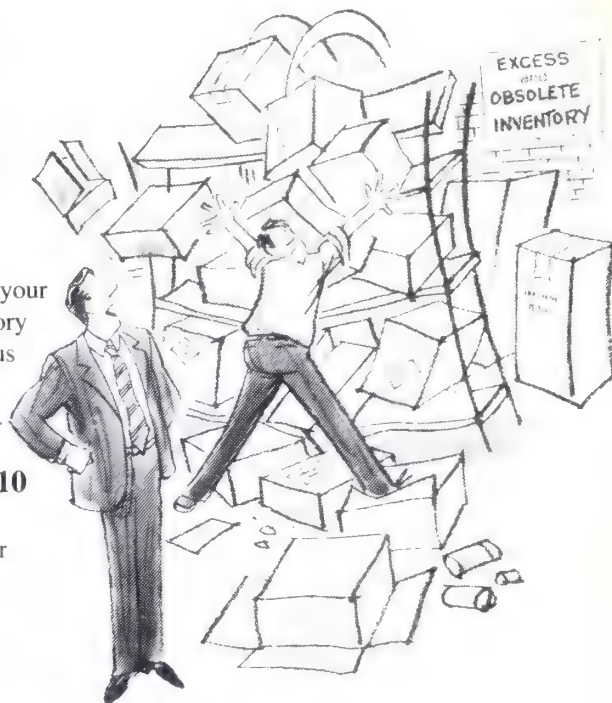
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MUTUAL FUNDS

FUND	RATING	OBJECTIVE	SIZE ASSETS \$ MIL.	% CHG. 1990-91	FEES		CURRENT RESULTS		
					SALES CHARGE (%)	EXPENSE RATIO (%)	1991 TOTAL RET. (%) YIELD		RANK W OBJEC
AAL CAPITAL GROWTH		Growth	330.0	95	4.75	1.30†	30.2	2.1	158/
AARP CAPITAL GROWTH	AVG	Growth	284.6	64	No load	1.17	40.5	0.7	83/
AARP GROWTH & INCOME	AVG	Growth/income	458.4	73	No load	0.96	26.5	3.5	80/
ABT GROWTH & INCOME		Growth/income	94.7	16	4.75	1.32†	29.5	2.2	54/
ABT UTILITY INCOME	AVG	Utilities	150.2	8	4.75	1.24†	18.0	5.0	16/
ACORN	AVG	Small company	1150.3	49	2.00*†	0.73	47.3	1.1	38/
ADDISON CAPITAL SHARES		Growth/income	32.3	24	3.00	2.34†	30.6	1.3	39/
ADVANTAGE GROWTH	AVG	Growth	40.9	64	4.00**	2.27†	38.1	0.5	94/
ADVANTAGE INCOME	AVG	Income	49.4	10	4.00**	2.07†	21.2	4.9	9/
ADVISORS		Maximum growth	158.6	13	5.50	3.80†	37.5	0.0	26/
AEGON USA GROWTH	AVG	Growth	44.5	31	4.75	0.99†	34.6	0.0	123/
AFFILIATED		Growth/income	3605.2	12	6.75	0.58†	21.8	3.8	100/
AIM CHARTER	▲ ▲ ▲	Growth/income	586.9	377	5.50	1.29†	37.8	1.9	13/
AIM CONSTELLATION		Maximum growth	486.9	348	5.50	1.40†	70.4	0.0	7/
AIM SUMMIT	AVG	Growth	517.8	64	8.50	0.75	33.5	1.2	132/
AIM WESINGARTEN	▲ ▲ ▲	Growth	3293.2	310	5.50	1.20†	46.9	0.4	50/
ALGER SMALL CAPITALIZATION	▲ ▲ ▲	Small company	80.9	174	5.00**	2.23†	54.6	0.0	24/
ALLIANCE A		Growth	748.2	21	5.50	0.84†	33.9	0.9	129/
ALLIANCE BALANCED SHARES A		Balanced	157.3	7	5.50	1.44†	20.5	3.5	34/
ALLIANCE COUNTERPOINT	AVG	Growth	63.5	19	5.50	1.72†	33.5	0.8	131/
ALLIANCE GLOBAL SMALL CAP A		International	82.4	18	5.50	2.29†	25.3	0.0	11/
ALLIANCE GROWTH & INCOME A	AVG	Growth/income	426.6	29	5.50	1.14†	27.1	2.6	76/
ALLIANCE INTERNATIONAL A		International	206.0	-4	5.50	1.73†	7.7	0.5	70/
ALLIANCE NEW EUROPE A		International	112.4	-40	5.50	2.07†	3.3	0.2	83/
ALLIANCE QUASAR A		Maximum growth	338.7	29	5.50	1.79†	34.3	0.0	28/
ALLIANCE TECHNOLOGY		Technology	191.7	45	5.50	1.77†	54.2	0.0	6/
AMCAP	AVG	Growth	2734.2	44	5.75	0.79†	36.9	1.1	104/
AMERICAN BALANCED	AVG	Balanced	642.0	73	5.75	0.84†	24.7	5.1	17/
AMERICAN CAPITAL COMSTOCK	AVG	Growth	986.7	21	8.50	0.79	31.9	2.2	143/
AMERICAN CAPITAL EMERGING GROWTH	AVG	Small company	345.7	63	5.75	1.14†	60.4	0.1	15/
AMERICAN CAPITAL ENTERPRISE A	AVG	Growth	713.3	31	5.75	0.94†	39.2	1.2	87/
AMERICAN CAPITAL GROWTH & INCOME		Growth/income	170.7	17	5.75	1.13†	30.2	3.0	47/
AMERICAN CAPITAL PACE		Growth	2591.7	20	5.75	0.88†	31.7	1.7	145/
AMERICAN CAPITAL EQUITY-INCOME	AVG	Equity-income	103.0	21	5.75	0.89†	26.7	4.5	15/
AMERICAN GAS INDEX		Natural resources	145.8	26	No load	0.79	3.2	4.7	
AMERICAN GROWTH		Growth	57.2	7	8.50	1.33	23.9	0.7	209/
AMERICAN INVESTORS GROWTH		Growth	61.2	11	4.50	1.66	31.1	0.0	150/
AMERICAN LEADERS	AVG	Growth/income	161.1	21	4.50	1.02	31.1	1.8	36/
AMERICAN MUTUAL	AVG	Growth/income	4328.9	26	5.75	0.63†	21.7	4.1	101/
AMERICAN NATIONAL GROWTH	AVG	Growth	126.0	30	8.50	1.02	36.0	1.1	108/

*Includes redemption fee. **Includes deferred sales charge. †12(b)-1 plan in effect. ‡Not currently accepting new accounts or deposits. §New fund, less than 12 months' total return. NA = Not available. MN = Not meaningful.

HOW TO USE THE TABLES

BUSINESS WEEK RATING

Ratings are based on five-year risk-adjusted performance, relative to the S&P 500. Performance is calculated by subtracting a fund's risk-of-loss factor (see RISK) from historic total return. To get a positive rating, a fund must beat the S&P 500 on a risk-adjusted basis.

- ▲ ▲ ▲ Superior performance
- ▲ ▲ Very good performance
- ▲ Above-average performance
- AVG Average performance
- Below-average performance
- Below-average performance
- Poor performance
- Very poor performance

MANAGEMENT CHANGES

Symbols after some fund names are a useful aid in assessing performance.

▲ indicates that the fund's current manager has held that job for 10 years.

† indicates that fund management has changed since Dec. 31, 1990.

S&P 500 COMPARISON

Here are total return figures for the S&P 500 for the four time periods that appear in the tables:

1991	30.4%
Three-year average (1989-91)	18.5%
Five-year average (1987-91)	15.3%
Ten-year average (1982-91)	17.5%

SALES CHARGE

The cost of buying a fund, commonly called the "load." Most funds take loads out of initial invest-

ments, and for rating purposes, performance is reduced by the amount of these charges. When loads are levied on withdrawals, they can take two forms. Deferred charges decrease over time, usually vanishing after shares have been owned five years. Redemption fees arise when investors sell shares.

EXPENSE RATIO

Expenses for 1991 as a percentage of average assets. This ratio measures how much shareholders pay for fund management. Footnotes indicate if a fund has a 12(b)-1 plan. This plan allocates shareholder money for distribution costs.

OBJECTIVE

Many funds specialize in one sector, which is indicated in this column. Otherwise, funds are grouped into the following categories. Asset Allocation: Seeks returns by moving money among

SCOREBOARD

EQUITY FUNDS

PERFORMANCE RESULTS		TREND	PORTFOLIO DATA			RISK		TELEPHONE	
ANNUAL TOTAL RET. (%)		BW 10-YEAR ANALYSIS	TURNOVER	% CASH	P/E RATIO	LARGEST HOLDING		TOLL FREE (800)	IN-STATE
5 YEARS	10 YEARS					COMPANY	% ASSETS		
			Very low	4	20.4	American Home Products	4	553-6319	WI 414-734-7633
15.1			High	8	21.1	Time Warner	3	253-2277	MA 617-330-5400
11.9			Average	11	16.9	Union Camp	2	253-2277	MA 617-330-5400
11.1	13.6		Low	13	19.6	Merck	3	289-2281	FL 407-655-7255
10.5	12.4		Low	5	13.8	Commonwealth Edison	5	289-2281	FL 407-655-7255
14.6	16.7		Low	4	24.7	Harley-Davidson	4	922-6769	IL 312-621-0630
11.9			Average	1	15.1	General Electric	2	526-6397	PA 215-665-6000
13.7			Average	11	20.9	Mobil	4	243-8115	MA 617-742-9858
9.1			Average	3	17.5	Meditrust	3	243-8115	MA 617-742-9858
nd, not rated			Very high	22	22.2	Telefonos de Mexico	3	451-2010	NY 212-464-8068
11.9	14.3		Average	7	19.4	FNMA	3	624-4339	FL 813-585-6565
10.6	15.7		Average	6	16.5	Mobil	5	874-3733	NY 212-848-1800
18.8	16.3		High	23	21.9	Pfizer	3	347-1919	TX 713-626-1919
22.0	18.4		High	5	23.5	Home Depot	2	347-1919	TX 713-626-1919
14.6			High	2	23.4	Pfizer	3	347-1919	TX 713-626-1919
20.8	21.3		Average	7	24.5	Philip Morris	4	347-1919	TX 713-626-1919
25.7			High	11	27.5	Spaghetti Warehouse	4	992-3863	NJ 201-547-9320
14.2	13.6		Average	-2	20.7	Philip Morris	5	227-4618	NJ 201-319-4000
9.5	15.4		Average	5	20.3	Philip Morris	4	227-4618	NJ 201-319-4000
15.1			Average	1	20.3	Philip Morris	5	227-4618	NJ 201-319-4000
7.8	9.6		Average	1	18.6	TCA Cable Television	1	227-4618	NJ 201-319-4000
13.1	17.0		Average	2	17.5	Philip Morris	4	227-4618	NJ 201-319-4000
6.8	15.0		Average	3	NA	Rogers Communications	3	227-4618	NJ 201-319-4000
nd, not rated			High	0	NA	Astra	5	227-4618	NJ 201-319-4000
10.1	14.9		Average	2	18.6	Exabyte	1	227-4618	IL 800-227-4170
13.7			High	15	26.6	Apple Computer	5	227-4618	NJ 201-319-4000
15.2	15.9		Very low	11	22.8	Merck	5	421-0180	CA 213-486-9200
11.9	15.8		Low	8	17.0	JC Penney	1	421-0180	CA 415-421-9360
13.8	16.0		Low	5	21.0	Philip Morris	3	421-5666	TX 713-993-0500
17.9	15.7		Average	4	27.5	Saint Jude Medical	3	421-5666	TX 713-993-0500
15.0	14.5		High	6	23.3	Philip Morris	2	421-5666	TX 713-993-0500
12.7	16.1		High	12	18.9	Philip Morris	3	421-5666	TX 713-993-0500
12.7	16.0		Low	3	19.8	Philip Morris	2	421-5666	TX 713-993-0500
10.9	14.8		High	12	18.8	Philip Morris	2	421-5666	TX 713-993-0500
nd, not rated			Low	0	15.7	Pacific Gas & Electric	5	343-3355	MD 301-657-1500
10.1	11.2		High	1	20.9	Norwest	6	525-2406	CO 303-623-6137
10.9	2.4		High	4	20.6	Sci-Med Life Systems	7	243-5353	CT 203-531-5000
11.0	16.6		Average	6	16.1	PNC Financial	3	245-5051	PA 412-288-1900
12.1	16.7		Low	1	18.1	Merck	4	421-0180	CA 213-486-9200
14.4	15.3		High	7	22.2	Johnson & Johnson	5	231-4639	TX 800-392-9753

DATA: MORNINGSTAR INC.

bonds, and cash; some also use gold, real estate and foreign stocks. **Balanced:** Attempts to maximize return by buying both stocks and bonds. **Equity:** Aims to achieve maximum income by buying high-yield stocks. **Growth:** Seeks long-term growth, income secondary. **Growth/income:** Tries to combine capital appreciation and current income. **Income:** To maximize current income and may sometimes invest in income securities. **Maximum growth:** Takes more risks; may borrow money, sell short, and buy derivatives. **Option:** Uses options to augment income.

NET RETURN

A fund's net gain to investors, including reinvestment of dividends and capital gains at month-end prices.

PERFORMANCE

A fund's relative performance during the four 30-day periods from Jan. 1, 1982, to Dec. 31, 1991.

Boxes read from left to right, and the level of red indicates performance relative to all other funds during the period: for the top quartile; for the second quartile; for the third quartile; and for the bottom quartile. An empty box indicates no rating for that time period.

TURNOVER

Trading activity, the lesser of purchases or sales divided by average monthly assets. High turnover can raise expenses.

% CASH

The portion of a fund's assets not currently invested in stocks or bonds. A negative figure can occur as a result of a pending capital gains distribution.

PRICE/EARNINGS RATIO

The average, weighted price/earnings ratio of stocks

in a fund's portfolio, based on trailing 12-month earnings.

RISK

The potential for losing money in a fund, or risk-of-loss factor. To derive each fund's level of risk, the monthly Treasury bill return is subtracted from the monthly total return for each fund for each of the 60 months in the rating period. When a fund has not performed as well as Treasury bills, this monthly result is negative. The sum of these negative numbers is then divided by the number of months. The result is a negative number, and the greater its magnitude, the higher a shareholder's risk of loss. This number is the basis for BW ratings and the RISK column. The designations in this column are assigned according to a normal statistical distribution.

MUTUAL FUNDS

FUND	RATING	OBJECTIVE	SIZE		FEES		CURRENT RESULTS		
			ASSETS \$ MIL.	% CHG. 1990-91	SALES CHARGE (%)	EXPENSE RATIO (%)	1991 TOTAL RET. (%)	YIELD	RANK VS OBJECT
AMERICAN NATIONAL INCOME	AVG	Equity-income	99.4	34	8.50	1.22	29.1	2.6	11/
AMERICAN PERFORMANCE EQUITY		Growth	87.3	66	4.00	1.17†	26.6	2.0	192/2
AMEV ADVANTAGE ASSET ALLOCATION		Asset allocation	29.8	32	4.50	1.83†	29.3	3.5	2/
AMEV ADVANTAGE CAPITAL APPRECIATION		Growth	39.0	123	4.50	1.82†	66.4	0.0	11/2
AMEV CAPITAL	AVG	Growth	222.6	56	4.75	1.28†	49.4	0.8	40/2
AMEV FIDUCIARY		Growth	45.1	48	4.50	1.46†	52.7	0.5	33/2
AMEV GROWTH		Growth	420.6	77	4.75	1.20†	67.5	0.1	8/2
ANALYTIC OPTIONED EQUITY		Option	102.1	-5	No load	1.15	13.3	3.1	4
API GROWTH	AVG	Growth	35.1	42	No load	2.38†	46.0	0.0	54/2
ARCH CAPITAL APPRECIATION INVESTOR		Growth	199.7	1011	4.50	0.37	26.7	2.2	189/2
ASO OUTLOOK EQUITY		Growth	34.9	66	4.50	1.15	19.2	2.7	235/2
BABSON ENTERPRISE		Small company	133.3	68	No load	1.22	43.0	0.5	45/
BABSON GROWTH	AVG	Growth	256.8	16	No load	0.86	26.1	1.8	198/2
BAIRD BLUE CHIP		Growth/income	55.6	56	5.75	1.50†	30.3	1.1	45/1
BAIRD CAPITAL DEVELOPMENT		Growth	29.8	52	5.75	1.10†	46.7	4.1	52/2
BARON ASSET		Small company	46.0	9	2.00**	1.70†	34.9	0.2	57/
BARTLETT CAPITAL BASIC VALUE	AVG	Growth/income	90.4	7	No load	1.21	26.0	2.9	82/1
BB & K DIVERSA		Asset allocation	56.8	-21	No load	1.46	16.0	4.2	20/
BENHAM EQUITY GROWTH		Growth	38.9	NM	No load	0.64	16.2§		
BENHAM GOLD EQUITIES INDEX		Precious metals	124.0	19	No load	0.75	-11.2	0.2	18/
BENHAM INCOME & GROWTH	AVG	Growth/income	58.8	5783	No load	0.00	39.1	3.0	11/10
BERGER 100		Growth	192.1	1180	No load	2.24†	88.8	0.0	2/2
BLANCHARD STRATEGIC GROWTH		Asset allocation	148.8	-28	No load	2.32†	10.7	3.1	22/4
BOSTON CO. CAPITAL APPRECIATION		Growth	508.0	7	No load	1.20†	22.9	1.8	220/2
BOSTON CO. INTERNATIONAL	AVG	International	31.5	19	No load	1.63†	6.6	0.6	76/
BOSTON CO. SPECIAL GROWTH		Growth	41.2	-5	No load	1.81†	29.2	0.0	166/2
BRANDYWINE		Growth	623.6	100	No load	1.09	49.2	0.6	41/2
BULL & BEAR CAPITAL GROWTH		Growth	46.6	-1	No load	2.81†	21.3	0.0	230/2
BURNHAM	AVG	Growth/income	125.4	1	5.00	1.10	18.0	4.7	113/8
CALVERT SOCIAL INVESTMENT EQUITY		Growth	51.2	92	4.75	1.04†	21.9	1.2	225/2
CALVERT SOCIAL INVESTMENT MANAGED		Balanced	365.1	39	4.75	1.31†	17.8	3.9	38/
CALVERT-ARIEL APPRECIATION		Growth	90.1	244	4.75	1.32†	33.2	0.9	133/2
CALVERT-ARIEL GROWTH	AVG	Small company	262.3	26	4.75†	1.29†	32.9	0.2	59/
CAPITAL INCOME BUILDER		Equity-income	656.8	178	5.75	0.98†	25.7	4.7	19/6
CARDINAL		Growth/income	241.1	32	8.50	0.70	32.3	2.8	27/6
CARNEGIE-CAPPIELLO GROWTH		Growth	91.1	41	4.50	1.72†	37.8	0.3	97/10
CARNEGIE-CAPPIELLO TOTAL RETURN	AVG	Growth/income	68.4	6	4.50	1.57†	39.5	4.7	10/10
CENTURY SHARES		Financial	157.9	21	No load	1.03	31.5	2.2	6/
CGM CAPITAL DEVELOPMENT		Growth	326.0	133	No load†	0.91	99.1	0.2	1/8
CGM MUTUAL		Balanced	401.9	54	No load	0.95	40.9	3.3	6/
CIGNA GROWTH	AVG	Growth	185.5	21	5.00	1.16†	37.0	0.8	100/5
CIGNA UTILITIES		Utilities	91.9	32	5.00	1.21†	23.9	4.5	7/2
CIGNA VALUE		Growth/income	152.1	76	5.00	1.21†	43.5	0.7	5/6
CITIBANK IRA CIT BALANCED		Balanced	229.6	25	No load	1.07	23.3	0.0	24/3
CITIBANK IRA CIT EQUITY	AVG	Growth	192.9	35	No load	1.08	34.9	0.0	118/5
CLIPPER		Growth	161.3	29	No load	1.15	32.7	2.5	137/5
COLONIAL		Growth/income	377.9	25	5.75	1.06†	26.2	2.9	81/6
COLONIAL ADVANCED STRATEGIC GOLD		Precious metals	38.3	-28	5.75	1.99†	-5.4	2.3	139/
COLONIAL GROWTH SHARES	AVG	Growth	147.9	31	5.75	1.05†	34.1	1.3	127/5
COLONIAL STRATEGIC INCOME		Income	425.2	3	4.75	1.13	28.2	9.7	6/
COLONIAL U. S. EQUITY INDEX		Growth/income	47.8	37	5.75	1.57†	28.1	1.6	66/6
COLONIAL VIP DIVERSIFIED RETURN		Growth/income	36.9	35	5.00**	2.25†	20.2	2.4	107/6
COLUMBIA GROWTH	AVG	Growth	431.5	59	No load	0.88	34.3	1.4	126/5
COLUMBIA SPECIAL		Small company	264.4	117	No load	1.21	50.5	0.0	30/5
COMMON SENSE GROWTH		Growth	1371.5	44	8.50	1.53	38.6	1.0	92/5
COMMON SENSE GROWTH & INCOME		Growth/income	524.1	31	8.50	1.21	31.3	1.9	33/6
COMMONWEALTH BALANCED	AVG	Balanced	47.7	15	7.50	0.99	25.5	3.7	15/3
COMPASS CAPITAL EQUITY-INCOME		Equity-income	134.1	122	No load	0.95	25.9	3.7	18/6
COMPASS CAPITAL GROWTH		Growth	115.0	15	No load	0.98	30.9	1.6	152/5
COMPOSITE BOND & STOCK		Balanced	70.1	10	4.00	1.22†	21.7	4.8	28/3

*Includes redemption fee. **Includes deferred sales charge. †12(b)-1 plan in effect. ‡Not currently accepting new accounts or deposits. §New fund, less than 12 months' total return. NA = Not available. MN = Not meaningful.

COREBOARD

EQUITY FUNDS

PERFORMANCE RESULTS			TREND		PORTFOLIO DATA			RISK		TELEPHONE	
5 YEARS	10 YEARS	ANN'L TOTAL RET (%)	BW 10-YEAR ANALYSIS		TURNOVER	% CASH	P/E RATIO	LARGEST HOLDING		TOLL FREE (800)	IN-STATE
								COMPANY	% ASSETS		
13.7	15.3				Low	24	18.6	Pfizer	4	Low	231-4639 TX 800-392-9753
und, not rated					High	1	17.8	IBM	3		762-7085 OH 614-899-4853
					Average	10	25.6	Home Depot	2		800-2638 MN 612-738-4000
					Average	29	24.3	Tetra Technologies	2		800-2638 MN 612-738-4000
15.2	18.4				Average	23	25.7	Wal-Mart Stores	4	Average	800-2638 MN 612-738-4000
15.4	19.1				Average	18	26.4	Wal-Mart Stores	4	High	800-2638 MN 612-738-4000
19.2	19.5				Average	26	36.4	Wal-Mart Stores	3	High	800-2638 MN 612-738-4000
10.3	11.4				Average	8	17.3	IBM	3	Very low	374-2633 CA 714-833-0294
11.4					Very high	3	21.4	Pasadena Growth Fund	6	Very high	544-6060 VA 804-846-1361
					Very high	10	20.6	IBM	5		441-7379
					Very low	8	17.3	IBM	4		451-8379 AL 205-581-7530
12.1					Very low	9	20.9	Jason	2	Average	422-2766 MO 816-471-5200
10.8	13.1				Low	6	16.3	Banc One	2	High	422-2766 MO 816-471-5200
14.7					Very low	10	22.1	Bristol-Myers Squibb	4	Low	792-2473 WI 414-765-3500
12.9					High	27	19.0	Harley-Davidson	4	High	792-2473 WI 414-765-3500
					High	6	24.3	Dole Food	14		992-2766 NY 212-759-7700
9.1					Average	2	16.1	IBM	3	Low	800-4612 OH 513-621-4612
6.5					Very high	5	21.2	Weingarten Realty	1	Very low	882-8383 CA 415-571-6002
und, not rated					Very high	6	19.7	American Home Products	4		472-3389 CA 415-965-4274
					Low	1	37.4	Newmont Gold	20		472-3389 CA 415-965-4274
und, not rated					High	8	17.5	American Home Products	4		472-3389 CA 415-965-4274
25.5	17.4				Average	23	33.0	Wal-Mart Stores	3	High	333-1001 CO 303-329-0200
8.4					Average	14	20.8	Philip Morris	1	Very low	922-7771 NY 212-779-7979
9.7	14.7				High	12	17.0	FNMA	3	Average	225-5267
					High	2	NA	Deutsche Bank	2		225-5267
11.2					Very high	10	17.0	PaineWebber Group	3	High	225-5267
19.2					High	29	25.5	Reebok International	4	High	
4.8	7.5				Very high	1	22.4	FNMA	3	Very high	847-4200 NY 212-363-1100
11.2	14.9				High	4	17.1	Telefonos de Mexico	3	Very low	874-3863 NY 212-262-3100
					Low	3	20.4	Equitable Resources	3		368-2748 MD 301-951-4820
10.6					Low	1	20.5	Albertsons	2	Very low	368-2748 MD 301-951-4820
und, not rated					Very low	10	19.2	Omnicom Group	3		368-2748 MD 301-951-4820
16.8					Low	2	20.8	Clorox	5	Average	368-2748 MD 301-951-4820
					Very low	11	15.9	GTE	2		421-0180 CA 213-486-9200
12.3	16.9				Low	14	17.1	Philip Morris	8	Low	848-7734 OH 800-282-9446
15.2					Low	1	20.0	Philip Morris	6	High	321-2322 OH 216-781-4440
11.3					Average	2	13.5	Valero Energy	8	Low	321-2322 OH 216-781-4440
12.8	16.1				Very low	5	12.4	Chubb	10	Average	321-1928 MA 617-482-3060
22.4	25.6				Very high	1	27.3	Philip Morris	10	High	345-4048 MA 617-578-1333
15.2	18.9				Very high	2	17.7	Philip Morris	11	Low	345-4048 MA 617-578-1333
13.9	14.7				Average	1	22.4	Home Depot	2	High	572-4462 MA 413-784-0100
					High	3	15.8	Illinois Power	5		572-4462 MA 413-784-0100
19.7					High	14	20.4	Tandy	3	Average	572-4462 MA 413-784-0100
					Average	5	19.8	IBM	1		248-4472 NY 800-522-5212
					Low	10	23.9	Bristol-Myers Squibb	2		248-4472 NY 800-522-5212
13.0					Low	10	15.0	Philip Morris	9	Low	776-5033 CA 213-278-5033
11.0	15.4				Low	10	17.1	HF Ahmanson	1	Low	248-2828 MA 617-426-3750
0.5					Very low	1	NA	Placer Dome	7	Very high	248-2828 MA 617-426-3750
14.7	15.5				Average	12	18.3	Niagara Mohawk Power	4	Average	248-2828 MA 617-426-3750
9.7	11.0				Low	2	15.8	Sonat	1	Very low	248-2828 MA 617-426-3750
13.5					Very low	0	19.3	Exxon	3	Average	248-2828 MA 617-426-3750
					Low	9	18.8	Seagull Energy	1		248-2828 MA 617-426-3750
16.3	17.6				Very high	0	22.5	Glaxo Holdings	2	Average	547-1707 OR 503-222-3606
20.6					High	5	22.6	Raymond James Financial	1	High	547-1707 OR 503-222-3606
					High	3	23.3	General Electric	1		544-5445
					Average	2	21.2	General Electric	2		544-5445
10.5	13.4				Average	-2	19.1	Bristol-Myers Squibb	4	Low	359-5964 MA 617-345-8200
und, not rated					High	7	16.6	Hanson	4		451-8371
und, not rated					Average	4	20.0	FHLMC	3		451-8371
9.3	13.0				Average	5	16.3	US West	2	Very low	543-8072 WA 509-353-3400

See pages 84-85 for an explanation of BW Rating, Trend and other terms

DATA: MORNINGSTAR INC

MUTUAL FUNDS

FUND	RATING	OBJECTIVE	SIZE		FEES		CURRENT RESULTS		
			ASSETS \$ MIL.	% CHG. 1990-91	SALES CHARGE (%)	EXPENSE RATIO (%)	1991 TOTAL RET. (%)	YIELD	RANK W/ OBJECTIVE
COMPOSITE GROWTH		Growth	73.5	21	4.00	1.22†	27.3	2.8	182/211
COMPOSITE NORTHWEST 50	▲ ▲	Growth	116.1	121	4.50	1.26†	43.9	0.5	60/211
CONNECTICUT MUTUAL GROWTH	AVG	Growth	40.7	16	5.00	1.19	36.9	1.6	103/211
CONNECTICUT MUTUAL TOTAL RETURN	▲ ▲	Asset allocation	86.5	30	5.00	1.23	28.2	3.7	3/211
COPLEY	AVG	Growth/income	33.0	20	No load	1.41	17.1	0.0	114/211
COUNSELLORS CAPITAL APPRECIATION	AVG	Growth	122.5	48	No load	1.08	26.3	0.9	195/211
COUNSELLORS EMERGING GROWTH		Small company	75.4	215	No load	1.25	56.1	0.1	21/211
COUNSELLORS INTERNATIONAL EQUITY		International	76.9	91	No load	1.50	20.6	2.4	17/211
COUNTRY CAPITAL GROWTH	AVG	Growth	85.4	17	3.00	0.82	27.8	2.0	175/211
COWEN INCOME+GROWTH	AVG	Equity-income	31.9	-6	4.85	2.26†	26.5	3.8	16/211
DEAN WITTER AMERICAN VALUE	▲ ▲ ▲	Growth	160.0	79	5.00**	1.55†	56.3	0.1	27/211
DEAN WITTER CAPITAL GROWTH		Growth	550.0	132	5.00**	0.52†	48.0	0.0	43/211
DEAN WITTER DEVELOPING GROWTH		Small company	111.0	43	5.00**	1.98†	48.2	0.0	35/211
DEAN WITTER DIVIDEND GROWTH	AVG	Growth/income	3500.0	26	5.00**	1.41†	30.6	2.8	40/211
DEAN WITTER EQUITY-INCOME (a)	AVG	Equity-income	150.0	1	5.00**	2.09†	24.3	2.1	25/211
DEAN WITTER MANAGED ASSETS		Balanced	220.0	2	5.00**	1.73†	26.4	3.1	12/211
DEAN WITTER NATURAL RESOURCE		Natural resources	130.0	-12	5.00**	1.86†	6.4	1.9	4/211
DEAN WITTER STRATEGIST		Asset allocation	260.0	43	5.00**	1.59†	32.2	1.7	1/211
DEAN WITTER UTILITIES		Utilities	1500.0	10	5.00**	1.64†	18.6	5.1	15/211
DEAN WITTER VALUE-ADDED MARKET EQUITY		Growth/income	160.0	39	5.00**	1.80†	32.2	1.1	29/211
DEAN WITTER WORLD WIDE INVESTMENT		International	265.0	-1	5.00**	2.25†	19.2	0.3	20/211
DELAWARE DECATUR I		Equity-income	1657.7	5	8.50	0.70	21.8	4.9	30/211
DELAWARE DECATUR II		Equity-income	415.2	15	4.75	1.25†	20.4	3.9	32/211
DELAWARE DELAWARE	AVG	Balanced	458.4	24	6.75	0.71	20.8	3.7	31/211
DELAWARE DELCAP CONCEPT I	▲ ▲	Growth	781.6	306	4.75	1.43†	42.3	0.1	67/211
DELAWARE TREND		Maximum growth	104.0	64	4.75	1.30	74.5	0.0	2/211
DODGE & COX BALANCED	▲ ▲	Balanced	197.4	139	No load	0.70	20.8	4.4	32/211
DODGE & COX STOCK	AVG	Growth/income	281.3	63	No load	0.65	21.5	3.0	103/211
DREYFUS	▲ ▲	Growth/income	2996.7	19	No load	0.77	28.0	2.6	67/211
DREYFUS APPRECIATION (b)	▲ ▲	Growth	80.9	100	No load	1.24†	38.5	1.3	93/211
DREYFUS CAPITAL VALUE	▲ ▲	Asset allocation	720.0	-1	4.50	1.68†	4.1	4.5	24/211
DREYFUS GROWTH OPPORTUNITY	▲ ▲	Growth	704.6	64	No load	0.98	51.5	1.0	35/211
DREYFUS LEVERAGE	AVG	Maximum growth	526.5	25	4.50	1.14	32.7	2.1	31/211
DREYFUS NEW LEADERS	AVG	Small company	194.0	90	1.00*	1.42†	45.4	0.6	40/211
DREYFUS STRATEGIC AGGRESSIVE INVESTING		Maximum growth	61.1	1	3.00	2.46†	32.7	0.0	30/211
DREYFUS STRATEGIC INVESTING	▲ ▲ ▲	Growth	166.2	57	4.50	1.93†	41.3	0.6	77/211
DREYFUS STRATEGIC WORLD INVESTING		International	54.5	115	3.00	1.78†	17.6	0.0	28/211
DREYFUS THIRD CENTURY	▲ ▲ ▲	Growth	360.3	81	No load	1.04	38.1	0.9	95/211
EATON VANCE EQUITY-INCOME		Equity-income	56.3	16	6.00**	2.26†	11.8	4.5	36/211
EATON VANCE GROWTH	AVG	Growth	155.9	99	4.75	0.92†	39.7	0.9	86/211
EATON VANCE INVESTORS	▲ ▲	Balanced	216.7	11	4.75	0.89†	21.3	4.5	30/211
EATON VANCE SPECIAL EQUITIES	AVG	Growth	77.3	54	4.75	0.98†	57.3	0.0	22/211
EATON VANCE STOCK	AVG	Growth/income	91.9	14	4.75	1.01†	21.5	3.0	104/211
EATON VANCE TOTAL RETURN		Growth/income	545.1	12	4.75	1.42†	23.6	4.9	91/211
EBI EQUITY	AVG	Growth/income	81.7	NM	No load	2.25†	36.3	1.0	14/211
ECLIPSE FINANCIAL ASSET EQUITY		Small company	148.5	37	No load	1.18	31.2	1.4	61/211
EMBLEM EARNINGS MOMENTUM EQUITY		Growth	39.7	61	4.00	1.08	33.2	1.0	134/211
EMBLEM RELATIVE VALUE EQUITY		Growth	188.8	37	4.00	0.90	24.4	1.8	207/211
EMERALD EQUITY		Growth	115.6	NM	4.50	0.46†	12.6§		
ENTERPRISE CAPITAL APPRECIATION		Maximum growth	33.2	163	4.75	1.75†	58.9	0.0	15/211
ENTERPRISE GROWTH	AVG	Growth	77.8	65	4.75	1.60†	41.8	0.8	73/211
ENTERPRISE GROWTH & INCOME		Growth/income	33.6	17	4.75	1.50†	23.6	3.3	92/211
EQUITABLE BALANCED BACK-LOAD		Balanced	30.1	48	5.00**	2.15†	41.4	1.6	58/211
EQUITY STRATEGIES		Maximum growth	71.0	11	No load†	1.17	12.4	0.0	34/211
EUROPACIFIC GROWTH	AVG	International	1716.7	85	5.75	1.28†	18.6	1.8	23/211
EVERGREEN		Small company	826.0	42	No load	1.15	40.1	1.2	49/211
EVERGREEN LIMITED MARKET	AVG	Small company	56.5	49	No load	1.32	51.1	0.7	27/211
EVERGREEN TOTAL RETURN		Growth/income	1122.1	2	No load	1.20	23.0	5.7	97/211
EVERGREEN VALUE TIMING	AVG	Growth/income	45.9	27	No load	1.43	25.8	1.4	83/211
FBL GROWTH COMMON STOCK	AVG	Growth	37.6	9	5.00**	1.59†	14.4	4.9	243/211

*Includes redemption fee. **Includes deferred sales charge. †12(b)-1 plan in effect ‡Not currently accepting new accounts or deposits. §New fund, less than 12 months' total return. NA = Not available. MN = Not meaningful.
(a) Formerly Dean Witter Option Income Trust. (b) Formerly General Aggressive Growth Fund

COREBOARD

EQUITY FUNDS

RESULTS		TREND	PORTFOLIO DATA		P/E RATIO	LARGEST HOLDING		RISK	TELEPHONE	
5 YEARS	10 YEARS	BW 10-YEAR ANALYSIS	TURNOVER	% CASH		COMPANY	% ASSETS		TOLL FREE (800)	IN-STATE
9.6	13.9		Low	7	16.5	US West	3	Low	543-8072	WA 509-353-3400
19.8			Very low	2	23.4	Nike	8	High	543-8072	WA 509-353-3400
14.1			High	6	13.7	Textron	2	Average	322-2642	CT 203-987-5090
12.5			High	4	14.4	FNMA	2	Very low	322-2642	CT 203-987-5090
8.4	13.8		Very low	10	15.0	Carolina Power & Light	5	Very low	424-8570	MA 508-674-8459
14.8			Low	4	20.3	Fund American	3	Average	888-6878	NY 212-878-0600
			High	10	25.4	Jacobs Engineering Group	2		888-6878	NY 212-878-0600
, not rated			Average	5	NA	Cheung Kong	3		888-6878	NY 212-878-0600
13.1	14.3		Low	0	19.8	Rubbermaid	4	Low		IL 800-322-3838
9.8			Low	0	15.4	Dow Chemical	6	Low	221-5616	NY 212-495-6000
17.2	14.9		Very high	1	23.8	General Mills	1	Low	869-3863	NY 212-392-2550
, not rated			Low	1	24.4	Safety-Kleen	2		869-3863	NY 212-392-2550
11.7			Average	0	25.1	Applied Bioscience	8	Very high	869-3863	NY 212-392-2550
13.5	17.5		Very low	1	19.5	Coca-Cola	2	Low	869-3863	NY 212-392-2550
10.3			High	5	17.0	Questar	2	Low	869-3863	NY 212-392-2550
10.4	7.0		High	1	20.3	Alcoa	2		869-3863	NY 212-392-2550
			Low	2	19.9	Royal Dutch Petroleum	5	Average	869-3863	NY 212-392-2550
			High	23	20.1	Exxon	2		869-3863	NY 212-392-2550
			Very low	1	14.6	Houston Industries	1		869-3863	NY 212-392-2550
			Low	-4	18.9	SPX	1		869-3863	NY 212-392-2550
8.5			Average	20	25.1	Baring Puma Fund	1	Average	869-3863	NY 212-392-2550
9.9	15.3		Average	0	15.5	IBM	4	Average	523-4640	PA 215-988-1333
11.0			Average	4	15.4	IBM	4	Average	523-4640	PA 215-988-1333
11.4	15.4		Very high	4	18.3	Motorola	2	Low	523-4640	PA 215-988-1333
20.5			Low	21	25.8	Novell	3	High	523-4640	PA 215-988-1333
18.2	16.2		Average	3	23.7	Tokos Medical	4	Very high	523-4640	PA 215-988-1333
12.4	15.9		Very low	5	17.8	IBM	2	Low		CA 415-434-0311
13.3	17.4		Very low	3	18.1	IBM	4	Average		CA 415-434-0311
12.6	14.0		High	18	19.5	Philip Morris	5	Low	645-6561	NY 718-895-1206
16.1			High	3	21.1	Philip Morris	9	Average	242-8671	NY 718-895-1396
14.0			High	9	26.8	American Barrick Resources	3	Very low	645-6551	NY 718-895-1206
15.4	13.9		High	18	28.5	Medtronic	3	Average	645-6561	NY 718-895-1206
12.3	15.4		Average	7	19.9	Philip Morris	5	Low	645-6561	NY 718-895-1206
14.5			High	16	20.6	Triton Energy	3	Average	645-6561	NY 718-895-1206
			High	12	24.3	Schlumberger	5		648-9048	NY 718-895-1347
19.0			Very high	22	22.6	US Healthcare	3	Low	645-6561	NY 718-895-1206
			Very high	68	17.7	Triton Energy	1		645-6561	NY 718-895-1206
16.2	13.8		Average	28	28.3	Astra	7	Low	645-6561	NY 718-895-1206
			High	3	16.7	Bell Atlantic	4		225-6265	MA 617-482-8260
15.6	15.9		Average	3	22.9	Astra	4	Average	225-6265	MA 617-482-8260
11.6	14.1		Average	4	20.1	General Re	4	Very low	225-6265	MA 617-482-8260
17.7	14.1		Average	7	27.7	Circus Circus Enterprises	5	High	225-6265	MA 617-482-8260
13.0	15.7		Low	1	18.2	JC Penney	4	Low	225-6265	MA 617-482-8260
9.3	17.0		Average	-9	13.8	GTE	4	Low	225-6265	MA 617-482-8260
13.4			Very low	4	NA	Abbott Laboratories	3	Average	554-1156	
, not rated			High	1	19.3	CIPSCO	1		872-2710	GA 404-631-0414
, not rated			Very high	9	19.8	Standard Register	4		543-6956	
, not rated			Average	5	20.8	General Electric	3		543-6956	
			Very high	0	NA	Philip Morris	4		637-6336	
			Average	19	29.9	Home Depot	5		432-4320	GA 404-396-8118
16.4	17.6		Average	6	24.1	Bristol-Myers Squibb	4	Average	432-4320	GA 404-396-8118
			Low	9	17.4	IBM	4		432-4320	GA 404-396-8118
			High	5	22.9	Philip Morris	4		852-6860	
13.8			Very low	-23	14.2	Nabors Industries	58	Very high	443-1021	NY 212-888-6685
13.8			Very low	12	NA	Alcatel Alsthom	2	Low	421-0180	CA 213-486-9200
11.3	15.1		Low	11	19.3	Eli Lilly	5	High	235-0064	NY 914-694-2020
14.8			Average	15	NA	Crown Andersen	2	Average	235-0064	NY 914-694-2020
7.5	15.4		High	5	15.3	Pacific Telesis Group	3	Low	235-0064	NY 914-694-2020
12.6			Low	20	20.2	FHLMC	3	Average	235-0064	NY 914-694-2020
6.6	8.7		Average	13	20.7	MDU Resources Group	5	Very low	247-4170	IA 800-422-3175

See pages 84-85 for an explanation of BW Rating, Trend and other terms

DATA MORNINGSTAR INC.

FUND	RATING	OBJECTIVE	SIZE		FEES		CURRENT RESULTS			RANK OBJE
			ASSETS \$ MIL.	% CHG 1990-91	SALES CHARGE (%)	EXPENSE RATIO (%)	1991 TOTAL RET. (%)	YIELD		
FIDELITY	AVG	Growth/income	1309.7	23	No load	0.69	24.1	2.6	89	
FIDELITY ADVISOR GROWTH OPPORTUNITIES (c)		Growth	264.4	280	4.75	1.73†	42.7	0.4	65	
FIDELITY ADVISOR INCOME & GROWTH (d)		Growth/income	158.6	137	4.75	1.71†	35.6	4.7	18	
FIDELITY ASSET MANAGER		Asset allocation	1016.3	173	No load	1.17	23.6	3.5		
FIDELITY BALANCED	▲ ▲ ▲	Balanced	725.2	147	No load	0.98	26.8	4.7	1	
FIDELITY BLUE CHIP GROWTH		Growth	390.0	197	3.00	1.26	54.8	0.4	30	
FIDELITY CAPITAL APPRECIATION	AVG	Maximum growth	992.7	-30	3.00	0.83	10.0	4.3	3	
FIDELITY CONTRAFUND	▲ ▲ ▲	Growth	1002.4	202	3.00	0.90	54.9	0.4	29	
FIDELITY DESTINY I	AVG	Growth	2293.0	36	8.24	0.50	39.0	2.9	90	
FIDELITY DESTINY II	AVG	Growth	413.2	75	8.24	0.84	41.4	1.3	76	
FIDELITY DISCIPLINED EQUITY		Growth	175.0	64	0.50*	1.19	36.0	1.3	109	
FIDELITY EMERGING GROWTH		Small company	724.3	31391	3.75*	1.31	67.1	0.0	1	
FIDELITY EQUITY-INCOME		Equity-income	4413.7	12	2.00	0.68	29.4	4.6	1	
FIDELITY EQUITY-INCOME II		Equity-income	370.9	5882	No load	1.52	46.6	3.1		
FIDELITY EUROPE		International	291.1	-20	3.00	1.31	4.2	3.2	8	
FIDELITY GROWTH & INCOME	▲ ▲	Growth/income	3355.5	94	2.00	0.87	41.8	1.8	6	
FIDELITY GROWTH COMPANY	▲ ▲	Growth	1376.4	129	3.00	1.07	48.3	0.3	42	
FIDELITY INTERNATIONAL GROWTH & INCOME		International	58.7	74	2.00	1.89	8.0	1.2	6	
FIDELITY LOW-PRICED STOCK		Small company	375.3	323	1.50*	1.36	46.3	1.1	3	
FIDELITY MAGELLAN	▲ ▲	Growth	19257.1	56	3.00	1.04	41.0	1.8	79	
FIDELITY MARKET INDEX (e)		Growth/income	202.6	NM	0.50*	0.35	30.3	2.7	44	
FIDELITY OTC	▲ ▲	Small company	1070.2	73	3.00	1.29	49.2	0.4	3	
FIDELITY OVERSEAS		International	958.1	-2	3.00	1.53	8.6	1.7	6	
FIDELITY PACIFIC BASIN		International	93.4	31	3.00	1.88	12.5	0.0	5	
FIDELITY PURITAN	AVG	Balanced	5108.9	17	2.00	0.66	24.5	5.7	1	
FIDELITY REAL ESTATE INVESTMENT	AVG	Specialty	62.6	58	No load	1.34	39.2	4.5		
FIDELITY RETIREMENT GROWTH (f)	▲ ▲	Growth	1835.2	39	No load	0.83	45.6	1.0	57	
FIDELITY SELECT AMERICAN GOLD		Precious metals	153.9	-26	3.75*	1.76	-6.1	0.0	1	
FIDELITY SELECT BIOTECHNOLOGY	▲ ▲ ▲	Health care	1146.5	412	3.75*	1.50	99.0	0.1		
FIDELITY SELECT ELECTRIC UTILITIES	AVG	Utilities	43.1	87	3.75*	1.94	26.3	3.8		
FIDELITY SELECT ENERGY		Natural resources	72.1	-25	3.75*	1.80	0.0	1.1		
FIDELITY SELECT ENVIRONMENTAL		Specialty	71.9	-26	3.75*	2.08	7.7	0.0		
FIDELITY SELECT FINANCIAL SERVICES		Financial	53.1	133	3.75*	2.00	61.6	0.9		
FIDELITY SELECT FOOD & AGRICULTURE	▲ ▲ ▲	Specialty	122.0	280	3.75*	1.86	34.1	0.3		
FIDELITY SELECT HEALTH CARE	▲ ▲ ▲	Health care	1169.8	213	3.75*	1.44	83.7	0.4		
FIDELITY SELECT LEISURE		Specialty	38.0	2	3.75*	2.39	32.9	0.0		
FIDELITY SELECT MEDICAL DELIVERY	▲ ▲ ▲	Health care	200.0	429	3.75*	1.66	77.8	0.0		
FIDELITY SELECT PRECIOUS METALS		Precious metals	147.1	-22	3.75*	1.79	1.5	0.9		
FIDELITY SELECT REGIONAL BANKS		Financial	36.3	282	3.75*	1.91	65.8	1.1		
FIDELITY SELECT TECHNOLOGY		Technology	124.8	30	3.75*	1.79	59.0	0.5		
FIDELITY SELECT TELECOMMUNICATIONS	▲ ▲ ▲	Utilities	68.8	24	3.75*	1.98	30.9	1.0		
FIDELITY SELECT UTILITIES	▲ ▲	Utilities	264.5	58	3.75*	1.55	21.0	4.3		
FIDELITY SPECIAL SITUATIONS PLYMOUTH	AVG	Growth	197.6	11	4.75	1.58†	23.0	3.0	21	
FIDELITY STOCK SELECTOR		Growth	126.6	623	No load	1.43	45.9	0.5	5	
FIDELITY TREND		Growth	900.2	29	No load	0.52	36.3	0.9	10	
FIDELITY UTILITIES INCOME		Utilities	620.4	189	No load	0.96	21.2	4.7		
FIDELITY VALUE		Growth	123.4	26	No load	0.98	26.2	2.9	19	
FIDELITY WORLDWIDE		International	100.9	7	No load	1.09	7.9	1.1		
FIDUCIARY CAPITAL GROWTH		Growth	35.3	59	No load	1.50	36.3	2.7	10	
FINANCIAL DYNAMICS	AVG	Maximum growth	141.3	145	No load	1.15†	67.0	0.0		
FINANCIAL EQUITY (g)	AVG	Growth/income	39.7	32	No load	1.00	35.8	2.2	1	
FINANCIAL FLEX (h)		Asset allocation	82.2	49	No load	1.00	24.9	4.2		
FINANCIAL INDUSTRIAL	AVG	Growth	455.0	34	No load	1.00†	42.2	1.2	6	
FINANCIAL INDUSTRIAL INCOME	▲ ▲ ▲	Equity-income	1596.7	190	No load	0.94†	46.3	2.6		
FINANCIAL INTERNATIONAL GROWTH (i)		International	42.0	8	No load	1.48	7.2	1.2		
FINANCIAL STRATEGIC EUROPEAN		International	79.1	9	No load	1.29	8.0	3.2		
FINANCIAL STRATEGIC FINANCIAL SERVICES	▲ ▲	Financial	91.0	2255	No load	2.50	74.0	0.8		
FINANCIAL STRATEGIC GOLD		Precious metals	35.4	-17	No load	1.32	-7.0	0.0		
FINANCIAL STRATEGIC HEALTH SCIENCES	▲ ▲ ▲	Health care	1069.0	567	No load	1.12	91.8	0.2		
FINANCIAL STRATEGIC TECHNOLOGY	AVG	Technology	106.7	295	No load	1.25	76.9	0.0		

*Includes redemption fee. **Includes deferred sales charge. †12(b)-1 plan in effect. ‡Not currently accepting new accounts or deposits. §New fund, less than 12 months' total return. NA = Not available. MN = Not met.
 (c) Formerly Plymouth Growth Opportunities. (d) Formerly Plymouth Income & Growth. (e) Formerly Fidelity Spartan Market Index Fund. (f) Formerly Fidelity Freedom Fund. (g) Formerly INVESCO Institutional Equity Fund. (h) Formerly INVESCO Institutional Flex Fund. (i) Formerly INVESCO Institutional Intl. Fund.

COREBOARD

EQUITY FUNDS

RESULTS		TREND	PORTFOLIO DATA			RISK		TELEPHONE	
ANNUAL TOTAL RET. (%)		BW 10-YEAR ANALYSIS	TURNOVER	% CASH	P/E RATIO	LARGEST HOLDING		TOLL FREE (800)	IN-STATE
5 YEARS	10 YEARS					COMPANY	% ASSETS		
13.1	16.4		Very high	13	20.6	United Telecommunications	2	544-6666	
			High	2	17.6	FNMA	4	522-7297	MA 617-439-6793
			Very high	10	16.6	Tektronix	3	522-7297	MA 617-439-6793
			High	37	17.3	FNMA	2	544-6666	
12.3			Very high	10	16.6	Lubrizol	2	544-6666	
			High	7	25.1	Philip Morris	5	544-6666	
14.1			Average	9	16.7	Gulf States Utilities	6	544-6666	
22.3	18.0		Very high	7	20.6	Pfizer	3	544-6666	
16.5	20.7		Average	7	17.5	FNMA	7	752-2347	MA 617-439-0547
18.1			High	3	17.7	FNMA	5	752-2347	MA 617-439-0547
not rated			Very high	3	18.0	Exxon	4	544-6666	
9.7	16.2		Very high	13	29.4	Sun Microsystems	4	544-6666	
not rated			High	9	16.1	Kmart	2	544-6666	
			Very high	15	14.8	Zions Bancorp	2	544-6666	
9.8			Average	3	NA	Nationale Elf Aquitaine	3	544-6666	
17.4			Very high	17	17.7	Sears Roebuck	1	544-6666	
20.0			High	20	24.1	Pfizer	3	544-6666	
8.5			High	9	NA	Repsol	2	544-6666	
not rated			Average	19	14.2	Southwest Water	6	544-6666	
17.6	23.6		High	7	19.0	FNMA	5	544-6666	
not rated			Very low	8	19.5	Exxon	3	544-6666	
18.3			Very high	17	20.1	Bancorp Hawaii	2	544-6666	
8.7			High	9	NA	Alcatel Alsthom	5	544-6666	
4.7			High	4	NA	York Benimar	2	544-6666	
10.2	16.3		High	4	17.3	IBM	3	544-6666	
8.1			High	14	19.3	American Health Property	9	544-6666	
16.6			High	3	24.8	Philip Morris	5	544-6666	
3.1			Low	6	34.6	American Barrick Resources	11	544-6666	
33.0			High	17	30.3	Amgen	12	544-6666	
9.6			Average	5	14.8	General Public Utilities	8	544-6666	
9.2	7.7		Average	4	15.8	Phillips Petroleum	5	544-6666	
not rated			Average	11	27.3	Waste Management	10	544-6666	
6.4	16.2		Very high	7	12.9	FNMA	5	544-6666	
22.6			Average	11	21.0	Philip Morris	8	544-6666	
28.6	27.4		High	5	26.9	Pfizer	11	544-6666	
12.5			Average	8	23.3	Southwest Airlines	3	544-6666	
27.1			High	5	23.2	National Medical Enterprises	9	544-6666	
2.1	4.4		Low	5	31.2	American Barrick Resources	11	544-6666	
15.2			High	2	14.2	KeyCorp	4	544-6666	
12.0	13.3		Very high	10	21.5	Sun Microsystems	4	544-6666	
19.4			Low	9	21.3	GTE	5	544-6666	
12.3	18.0		Low	9	14.8	General Public Utilities	5	544-6666	
11.6			Very high	2	18.3	Eastern Utilities Associates	3	522-7297	MA 617-439-6793
not rated			Very high	1	16.7	American Home Products	3	544-6666	
13.3	14.5		Average	3	20.3	FNMA	7	544-6666	
9.8	13.8		Low	10	14.8	General Public Utilities	4	544-6666	
not rated			High	7	14.8	Primerica	3	544-6666	
9.0	13.6		High	10	NA	Generale Des Eaux	2	544-6666	
16.8	14.8		Average	20	18.5	MCI Communications	5	338-1579	WI 414-226-4555
			Very high	16	30.8	Synergen	2	525-8085	CO 303-779-1233
14.0			Low	8	18.2	Whirlpool	3	525-8085	CO 303-779-1233
			Low	7	NA	C&S/Sovran	2	525-8085	CO 303-779-1233
14.3	15.4		Average	9	22.2	Telefonos de Mexico	4	525-8085	CO 303-779-1233
18.7	20.1		High	8	18.4	Conseco	4	525-8085	CO 303-779-1233
			Average	5	NA	Nationale Elf Aquitaine	2	525-8085	CO 303-779-1233
7.4			Low	9	NA	British Gas	2	525-8085	CO 303-779-1233
18.2			Very high	1	15.5	Conseco	6	525-8085	CO 303-779-1233
-4.3			High	6	34.0	American Barrick Resources	7	525-8085	CO 303-779-1233
36.7			Very high	21	32.4	Medtronic	4	525-8085	CO 303-779-1233
20.3			Very high	14	24.8	Oracle Systems	4	525-8085	CO 303-779-1233

See pages 84-85 for an explanation of BW Rating, Trend and other terms

DATA: MORNINGSTAR INC.

MUTUAL FUNDS

FUND	RATING	OBJECTIVE	SIZE ASSETS \$ MIL.	% CHG. 1990-91	FEES SALES CHARGE (%)	EXPENSE RATIO (%)	CURRENT RESULTS		RANK OBJ.
							1991 TOTAL RET. (%)	YIELD	
FINANCIAL STRATEGIC UTILITIES	AVG	Utilities	85.3	159	No load	1.26	28.0	3.2	
FIRST EAGLE FUND OF AMERICA		Growth	74.4	18	1.00*	2.00	20.9	0.6	232
FIRST INVESTORS BLUE CHIP		Growth/income	79.9	43	6.90	1.28†	27.5	1.5	74
FIRST INVESTORS GLOBAL	AVG	International	228.5	6	6.90	2.07†	16.8	0.0	3
FLAG INVESTORS EMERGING GROWTH		Small company	51.9	43	4.50	1.50†	49.6	0.0	3
FLAG INVESTORS INTERNATIONAL		International	36.9	-18	4.50	1.50†	4.2	0.0	8
FLAG INVESTORS QUALITY GROWTH		Growth	65.5	59	4.50	1.25†	28.2	1.1	171
FLAG INVESTORS TELEPHONE INCOME	▲ ▲	Utilities	238.6	34	4.50	0.92†	23.4	4.1	
FLEX-FUNDS GROWTH		Growth	32.3	38	No load	1.39†	21.5	2.8	229
FLEX-FUNDS MUIRFIELD		Growth	43.3	47	No load	1.49†	29.8	4.3	161
FORTRESS UTILITY		Utilities	167.1	258	1.75*	1.03†	25.9	5.7	
FOUNDERS BLUE CHIP	AVG	Growth/income	290.3	24	No load	1.03†	28.3	1.4	64
FOUNDERS DISCOVERY		Small company	47.4	587	No load	1.75†	62.5	0.0	1
FOUNDERS FRONTIER		Small company	102.5	160	No load	1.61†	49.3	0.0	3
FOUNDERS GROWTH	AVG	Growth	140.0	59	No load	1.41†	47.4	0.6	48
FOUNDERS SPECIAL	▲ ▲	Maximum growth	224.4	287	No load	1.09	63.7	0.5	1
FPA CAPITAL		Growth	98.9	50	6.50	1.10	64.5	0.9	13
FPA PARAMOUNT	▲ ▲ ▲	Growth/income	256.1	24	6.50†	0.93	24.3	3.2	88
FPA PERENNIAL	▲	Growth/income	63.8	24	6.50	1.18	21.7	3.2	102
FRANKLIN DYNATECH	AVG	Technology	56.0	54	4.00	0.93	35.5	1.2	
FRANKLIN EQUITY		Growth	421.8	20	4.00	0.69	26.6	1.8	191
FRANKLIN GOLD	▲	Precious metals	263.5	-9	4.00	0.75	5.9	2.4	
FRANKLIN GROWTH	▲ ▲	Growth	407.8	108	4.00	0.70	26.7	2.5	188
FRANKLIN INCOME	▲ ▲	Income	1796.4	43	4.00	0.56	41.0	10.4	
FRANKLIN RISING DIVIDENDS		Growth/income	71.4	79	4.00	1.60†	35.9	2.0	16
FRANKLIN UTILITIES	▲	Utilities	1483.5	71	4.00	0.59	24.0	6.2	
FREEDOM ENVIRONMENTAL		Specialty	39.0	-24	4.50	1.90†	8.3	0.2	
FREEDOM GOLD & GOVERNMENT	AVG	Precious metals	57.0	-13	4.00**	1.82†	12.2	5.8	
FREEDOM REGIONAL BANK	AVG	Financial	50.0	19	4.00**	2.04†	63.8	2.0	
FREMONT MULTI ASSET		Asset allocation	85.8	45	No load	1.14	18.6	3.1	1
FT INTERNATIONAL EQUITY		International	105.7	26	4.50	1.51	7.5	0.4	7
FUNDAMENTAL INVESTORS	AVG	Growth/income	1155.6	40	5.75	0.70†	30.3	2.2	42
FUNDTRUST GROWTH & INCOME		Growth/income	36.6	25	1.50	1.85†	23.3	2.6	94
G. T. AMERICA GROWTH		Growth	87.1	33	4.75	1.70†	19.3	0.1	234
G. T. EUROPE GROWTH		International	1213.2	-15	4.75	1.90†	4.3	1.4	7
G. T. GLOBAL GROWTH & INCOME		International	85.8	210	4.75	1.85†	19.1	5.2	2
G. T. GLOBAL HEALTH CARE		Health care	702.3	300	4.75	1.91†	57.9	0.0	
G. T. INTERNATIONAL GROWTH		International	465.3	35	4.75	1.80†	13.2	1.3	47
G. T. JAPAN GROWTH		International	62.0	19	4.75	2.20†	-2.8	0.0	80
G. T. LATIN AMERICA GROWTH		International	140.7	NM	4.75†	1.90†	14.8§		
G. T. PACIFIC GROWTH	AVG	International	333.8	42	4.75	2.00†	13.0	3.6	48
G. T. WORLDWIDE GROWTH		International	128.1	49	4.75	1.90†	20.3	1.1	18
GABELLI ASSET	▲ ▲ ▲	Growth	485.4	42	No load	1.27†	18.1	2.1	236
GABELLI GROWTH		Growth	420.9	107	No load	1.44†	34.3	0.7	125
GABELLI VALUE		Growth	576.3	-32	5.50	1.41†	15.3	1.9	242
GALAXY EQUITY GROWTH		Growth	108.1	104	No load	0.94	30.4	1.5	155
GALAXY EQUITY VALUE		Growth	88.1	-8	No load	0.93	23.4	3.1	217
GAM INTERNATIONAL	AVG	International	40.4	72	5.00	2.24	15.6	0.1	38
GAM PACIFIC BASIN		International	35.8	72	5.00	2.23	16.7	0.0	34
GATEWAY INDEX PLUS	▲ ▲	Option	81.4	114	No load	1.15	17.8	1.9	
GEORGE PUTNAM FUND OF BOSTON	AVG	Balanced	530.0	27	5.75	0.92†	22.8	4.8	26
GINTEL		Growth	77.4	-2	No load	1.50	15.6	2.1	241
GINTEL CAPITAL APPRECIATION		Growth	35.3	22	No load	2.10†	18.0	0.6	237
GINTEL ERISA		Growth/income	73.2	-7	No load	1.60†	13.5	2.6	115
GIT SPECIAL GROWTH		Small company	60.9	63	No load	1.40	25.7	1.1	64
GLOBAL UTILITY		Utilities	129.1	-27	5.25	1.68†	16.2§		
GOLDEN RAINBOW		Balanced	120.5	NM	No load	1.86†	8.7§		
GOLDMAN SACHS CAPITAL GROWTH		Growth	482.2	18	5.50	0.45†	31.9	2.3	144
GOLDMAN SACHS SELECT EQUITY		Growth/income	153.0	NM	5.50	0.45†	7.9§		
GRADISON ESTABLISHED GROWTH	AVG	Growth	170.0	29	No load	1.33†	22.2	2.4	224

*Includes redemption fee. **Includes deferred sales charge. †12(b)1 plan in effect. ‡Not currently accepting new accounts or deposits. §New fund, less than 12 months' total return. NA = Not available. MN = Not meaningful.

COREBOARD

EQUITY FUNDS

RESULTS		TREND	PORTFOLIO DATA				RISK		TELEPHONE	
UN'L TOTAL RET (%)		BW 10-YEAR ANALYSIS	TURNOVER	% CASH	P/E RATIO	LARGEST HOLDING			TOLL FREE (800)	IN-STATE
5 YEARS	10 YEARS					COMPANY	% ASSETS			
10.5			Very high	1	14.0	Telefonos de Mexico	6	Low	525-8085	CO 303-779-1233
			Average	23	17.6	First Empire State	5		451-3623	NY 212-943-9200
not rated			Average	7	22.7	General Electric	4		423-4026	NY 212-858-8000
16.3	15.3		High	2	19.9	Ciba-Geigy	2	High	423-4026	NY 212-858-8000
			Average	9	29.8	Centex Telemanagement	5		767-3524	MD 301-727-1700
5.8			Average	4	NA	Japan Radio	3	High	767-3524	MD 301-727-1700
not rated			Very low	12	23.4	General Mills	3		767-3524	MD 301-727-1700
15.7			Very low	7	16.2	Southwestern Bell	11	Low	767-3524	MD 301-727-1700
7.2			Very high	51	20.7	Merck	4	Low	325-3539	OH 614-766-7000
			Very high	18	18.7	Fidelity Contrafund	8		325-3539	OH 614-766-7000
			Average	8	14.4	DPL	3		245-5051	PA 412-288-1900
14.4	17.0		High	13	22.9	ConAgra	4	Low	525-2440	CO 303-394-4404
not rated			Very high	20	20.7	Tetra Technologies	3		525-2440	CO 303-394-4404
			High	23	28.6	Sci-Med Life Systems	3		525-2440	CO 303-394-4404
16.6	15.7		High	21	23.9	Home Depot	5	Average	525-2440	CO 303-394-4404
19.4	16.8		Average	24	28.2	Brinker International	3	High	525-2440	CO 303-394-4404
18.4	15.7		Very low	3	18.4	Green Tree Acceptance	14	Very high	421-4374	CA 213-277-4900
17.7	19.6		High	42	20.1	Panhandle Eastern	5	Low	421-4374	CA 213-277-4900
12.9			Low	21	18.1	Melville	4	Low	421-4374	CA 213-277-4900
17.0	14.6		Very low	28	25.2	Intel	9	Average	342-5236	CA 415-570-3000
10.7	14.6		Average	8	18.0	Edison Brothers Stores	2	High	342-5236	CA 415-570-3000
10.2	8.4		Average	7	29.3	De Beers Consolid. Mines	12	Very high	342-5236	CA 415-570-3000
15.9	17.9		Very low	28	22.5	Pfizer	3	Low	342-5236	CA 415-570-3000
10.3	15.0		Low	8	14.0	Security Pacific	2	Very low	342-5236	CA 415-570-3000
			Low	23	16.0	Norfolk Southern	6		342-5236	CA 415-570-3000
10.3	16.4		Very low	12	15.7	Dominion Resources	4	Low	342-5236	CA 415-570-3000
not rated			Average	9	24.5	Waste Management	5		225-6258	MA 617-725-2300
7.3			High	2	NA	Freeport-McMoRan Cop./Gold 1	1	Very low	225-6258	MA 617-725-2300
14.7			Average	13	12.1	Norwest	4	Average	225-6258	MA 617-725-2300
			Average	5	19.8	AT&T	1		548-4539	
6.2			High	7	NA	Grand Metropolitan	3	High	245-5051	PA 412-288-1900
13.6	18.3		Very low	11	17.4	FNMA	5	Average	421-0180	CA 415-421-9360
9.0			Average	11	NA	Financial Industrial Inc. Fund 11	1	Low	344-9033	MA 617-423-0800
			Low	17	22.3	Quality Food Centers	3		824-1580	CA 415-392-6181
8.2			Average	5	NA	EuroDisney	2	High	824-1580	CA 415-392-6181
not rated			Low	13	15.2	Electrabel	1		824-1580	CA 415-392-6181
not rated			Low	4	27.4	Roche Holdings	3		824-1580	CA 415-392-6181
11.2			Average	9	NA	Hutchison Whampoa	2	Average	824-1580	CA 415-392-6181
15.7			Very high	17	NA	Seibu Elec. & Mach.	9	Very high	824-1580	CA 415-392-6181
not rated			High	4	NA	Telefonos de Mexico	4		824-1580	CA 415-392-6181
14.2	15.7		Average	11	NA	Hutchison Whampoa	4	Average	824-1580	CA 415-392-6181
			High	13	21.2	Sharp	3		824-1580	CA 415-392-6181
16.6			Average	8	20.6	Paramount Communications	3	Very low	422-3554	NY 914-921-5000
			Average	5	24.1	CPC International	4		422-3554	NY 914-921-5000
not rated			Average	1	16.7	Paramount Communications	18		422-3554	NY 914-921-5000
not rated			Low	10	NA	PepsiCo	3		628-0414	
			Average	3	19.7	Parker-Hannifin	3		628-0414	
12.3			Very high	14	NA	Mitsubishi Trust & Banking	6	Low		NY 212-888-4200
			High	26	NA	Mitsubishi	4			NY 212-888-4200
11.9	11.6		Low	0	20.5	Exxon	7	Very low	354-6339	OH 513-248-2700
11.8	15.2		Average	3	16.5	Philip Morris	2	Low	225-1581	MA 617-292-1000
8.2	14.2		Average	27	14.2	Phelps Dodge	21	High	243-5808	CT 203-622-6400
10.9			High	23	15.9	Phelps Dodge	14	High	243-5808	CT 203-622-6400
8.5			High	33	14.1	Boeing	15	Average	243-5808	CT 203-622-6400
10.2			Very low	30	17.3	Cascade International	3	Average	336-3063	VA 703-528-6500
not rated			High	5	13.7	Southwestern Bell	4		225-1852	
not rated			Average	7	NA	Chiquita	2		227-4648	OH 800-354-7447
not rated			High	12	15.1	Argonaut Group	4		762-5035	
not rated			High	1	NA	General Electric	4		762-5035	
11.0			Average	23	14.8	Merrill Lynch	2	Average	869-5999	OH 513-579-5700

See pages 84-85 for an explanation of BW Rating, Trend and other terms

DATA: MORNINGSTAR INC.

MUTUAL FUN

FUND	RATING	OBJECTIVE	SIZE ASSETS \$ MIL.	% CHG. 1990-91	FEES SALES CHARGE (%)	EXPENSE RATIO (%)	CURRENT RESULTS			RANK OBJ.
							1991 TOTAL RET. (%)	YIELD		
GRADISON OPPORTUNITY GROWTH		Small company	39.1	70	No load	1.61†	35.9	1.6		9
GROWTH FUND OF AMERICA	AVG	Growth	3457.7	68	5.75	0.83†	35.8	1.5		112
GROWTH FUND OF WASHINGTON		Growth	35.3	-7	5.00	1.66†	26.4	1.3		194
GUARDIAN PARK AVENUE	AVG	Growth	270.1	25	4.50	0.67	35.2	2.7		114
GW GROWTH & INCOME		Growth/income	60.0	161	4.50	1.52†	27.6	1.8		73
HANCOCK ASSET ALLOCATION (j)		Asset allocation	31.9	37	4.50	2.28†	27.9	1.1		
HANCOCK GLOBAL		International	83.4	5	4.50	2.08†	26.1	0.0		
HANCOCK GLOBAL TECHNOLOGY		Technology	31.6	9	5.00	2.36†	33.5	0.2		
HANCOCK GROWTH	AVG	Growth	145.3	42	4.50	1.40†	41.8	0.2		74
HANCOCK SOVEREIGN INVESTORS (k)		Growth/income	194.1	132	5.00	1.14†	30.7	3.5		36
HARBOR CAPITAL APPRECIATION		Growth	90.9	46	No load	0.89	54.8	0.3		31
HARBOR GROWTH	AVG	Growth	216.6	52	No load	0.91	50.5	0.3		37
HARBOR INTERNATIONAL		International	220.8	258	No load	1.35	21.5	1.2		1
HARBOR VALUE		Growth/income	42.0	59	No load	0.93	21.3	3.5		105
HARTWELL EMERGING GROWTH		Small company	107.7	328	4.75	1.70†	72.2	0.0		
HEARTLAND VALUE		Small company	29.9	50	4.50	1.80†	49.4	3.9		3
HELMSMAN BLUE CHIP EQUITY		Growth	71.0	NM	No load	0.64†	29.2§			
HELMSMAN DISCIPLINED EQUITY		Growth	99.2	63	No load	0.41†	27.0	3.2		185
HELMSMAN GROWTH EQUITY		Growth	103.2	196	No load	0.45†	40.5	0.9		84
HELMSMAN INCOME EQUITY		Equity-income	102.9	112	No load	0.42†	23.4	4.0		2
HELMSMAN QUANTITATIVE EQUITY (l)		Growth	51.1	NM	No load	0.52†	12.0§			
HERITAGE CAPITAL APPRECIATION		Growth	68.6	17	4.00	1.86†	35.1	1.8		116
HIGHMARK INCOME-EQUITY		Equity-income	59.2	60	No load	1.17	30.5	3.9		
HT INSIGHT EQUITY		Growth	34.1	39	4.50	1.00†	27.5	2.3		179
IAI INTERNATIONAL		International	36.5	13	No load	2.00†	16.6	1.9		3
IAI REGIONAL		Growth	454.2	115	No load	1.25†	35.4	1.0		113
IAI STOCK	AVG	Growth/income	115.4	49	No load	1.25†	26.7	0.9		77
IDEX		Growth	257.6	146	8.50	1.32	61.5	0.4		16
IDEX 3		Growth	222.3	55	8.50†	1.28	61.8	0.5		17
IDEX II		Growth	186.3	135	5.50	1.48†	58.7	0.3		20
IDS BLUE CHIP ADVANTAGE		Growth/income	84.1	153	5.00	1.07†	29.5	1.9		53
IDS DISCOVERY		Small company	278.7	86	5.00	0.98†	52.8	0.2		2
IDS DIVERSIFIED EQUITY-INCOME		Equity-income	38.2	497	5.00	0.90†	26.1	5.4		1
IDS EQUITY PLUS	AVG	Growth/income	440.3	24	5.00	0.66†	32.4	1.5		26
IDS GLOBAL GROWTH		International	41.1	75	5.00	1.81†	13.8	0.7		4
IDS GROWTH	AVG	Growth	923.2	45	5.00	0.87†	46.9	0.9		49
IDS INTERNATIONAL		International	238.2	13	5.00	1.36†	11.8	0.6		5
IDS MANAGED RETIREMENT		Growth/income	1154.0	59	5.00	0.89†	46.0	1.6		3
IDS MUTUAL	AVG	Balanced	1989.9	25	5.00	0.71†	23.7	5.1		2
IDS NEW DIMENSIONS		Growth	1948.1	110	5.00	0.90†	50.7	1.0		36
IDS PRECIOUS METALS		Precious metals	58.6	-22	5.00	1.50†	-3.7	1.4		1
IDS PROGRESSIVE		Growth	130.2	10	5.00	0.98†	25.1	2.7		203
IDS STOCK		Growth/income	1629.9	27	5.00	0.64†	27.6	3.1		72
IDS STRATEGIC AGGRESSIVE EQUITY	AVG	Maximum growth	487.4	69	5.00**	1.58†	51.2	0.1		2
IDS STRATEGIC EQUITY	AVG	Growth/income	462.8	44	5.00**	1.63†	28.4	2.6		63
IDS STRATEGIC WORLDWIDE GROWTH		International	41.7	8	5.00**	2.64†	9.6	0.5		6
IDS UTILITIES INCOME		Utilities	327.5	50	5.00	0.9035.3†	22.0	5.3		
INCOME FUND OF AMERICA		Income	3525.3	62	5.75	0.67†	23.8	6.4		
INDEPENDENCE CAPITAL TOT. RET. GRTH.		Growth/income	34.5	36	4.50	1.44†	35.0	0.1		20
INTERNATIONAL EQUITY		International	116.1	92	No load	1.12	3.6	1.5		8
INVESTMENT COMPANY OF AMERICA	AVG	Growth/income	10525.9	78	5.75	0.55†	26.5	2.5		78
INVESTMENT TRUST BOSTON GROWTH OPP.		Growth/income	70.3	26	5.75	1.28†	30.6	2.1		41
INVESTORS RESEARCH	AVG	Growth	75.0	30	6.75	0.90	42.3	1.0		68
IVY GROWTH	AVG	Growth	231.8	25	5.75	1.31†	30.4	1.5		156
IVY INTERNATIONAL	AVG	International	96.8	50	5.75	1.69†	16.9	1.3		3
JANUS		Growth	2993.0	159	No load	0.98	42.8	1.0		63
JANUS GROWTH & INCOME		Growth/income	93.3	NM	No load	2.33†	35.3§			
JANUS TWENTY		Growth	1348.4	453	No load	1.07	69.3	0.1		3
JANUS VENTURE		Small company	1464.1	429	No load†	1.08	47.7	0.4		3
JAPAN		International	334.9	7	No load	1.05	3.1	0.0		8

* Fund's performance relative to its benchmark. ** Income deferred sales charge. † 12-month plan in effect. ‡ Not currently accepting new accounts or deposits. § New fund, less than 12 months' total return. NA = Not available. MN = Not measured. (j) Formerly Hancock John Asset Allocation Trust. (k) Formerly Sovereign Investors. (l) Formerly Helmsman Quantitative Value Equity Port.

COREBOARD

EQUITY FUNDS

RESULTS		TREND	PORTFOLIO DATA			RISK		TELEPHONE	
ANNUAL TOTAL RET. (%)		BW 10-YEAR ANALYSIS	TURNOVER	% CASH	P/E RATIO	LARGEST HOLDING		TOLL FREE (800)	IN-STATE
5 YEARS	10 YEARS					COMPANY	% ASSETS		
11.2			Average	29	13.7	Carter-Wallace	3	869-5999	OH 513-579-5700
16.7	17.0		Low	15	20.0	FNMA	6	421-0180	CA 415-421-9360
7.8			Very low	3	15.1	Washington Post	14	972-9274	DC 202-842-5665
12.8	17.9		Average	-1	15.7	Philip Morris	3	221-3253	NY 800-522-7800
not rated			Low	1	20.0	Glaxo	4	222-5852	
			Average	6	23.0	Boeing	2	225-5291	
8.3			High	1	22.7	Coca-Cola	3	225-5291	
7.6			Low	11	22.4	Tele-Communications	6	225-5291	
14.9	14.9		High	8	26.3	Wal-Mart Stores	3	225-5291	
13.5	17.1		Average	15	20.4	Philip Morris	4	225-5291	
			Average	2	25.8	Pfizer	4	422-1050	OH 419-247-2477
15.2			High	1	20.4	Alexander & Baldwin	5	422-1050	OH 419-247-2477
			Low	7	NA	Sony	2	422-1050	OH 419-247-2477
			Low	2	16.7	Exxon	4	422-1050	OH 419-247-2477
25.0	16.2		High	5	38.3	Tokos Medical	5	343-2898	MA 617-338-3400
8.9			Average	1	13.2	Marten Transport	6	432-7856	WI 414-347-7276
not rated			High	5	NA	Philip Morris	4	338-4345	
not rated			Average	5	13.1	Chubb	6	338-4345	
not rated			Average	5	20.5	Texaco	4	338-4345	
not rated			Very low	6	16.5	Philip Morris	4	338-4345	
not rated			High	4	NA	Limited	2	338-4345	
11.4			Average	16	21.1	FNMA	6	421-4184	FL 813-573-8143
			Low	5	16.0	IBM	4	433-6884	
			High	6	15.6	Entergy	5	441-7379	
			Low	9	NA	Granada	4	927-3863	MN 612-376-2600
17.2	19.6		High	28	20.0	Medtronic	3	927-3863	MN 612-376-2600
14.0	16.0		Average	17	19.7	Telefonos de Mexico	3	927-3863	MN 612-376-2600
23.8			Average	11	24.8	Amgen	5	624-4339	FL 813-585-6565
			High	6	24.3	Chambers Development	5	624-4339	FL 813-585-6565
24.5			High	12	25.5	Chambers Development	5	624-4339	FL 813-585-6565
not rated			High	0	20.4	Royal Dutch Petroleum	3	328-8300	MN 612-671-3733
15.1	13.6		High	16	30.6	Cracker Barrel Old Country	4	328-8300	MN 612-671-3733
not rated			Average	-2	16.7	MBNA	2	328-8300	MN 612-671-3733
14.5	14.9		Average	0	24.1	Sherwin-Williams	3	328-8300	MN 612-671-3733
not rated			Low	-1	NA	Bobst	3	328-8300	MN 612-671-3733
17.1	16.0		Average	-1	29.4	Wal-Mart Stores	10	328-8300	MN 612-671-3733
6.9			High	0	22.0	Siemens	1	328-8300	MN 612-671-3733
17.9			Average	0	23.0	Wal-Mart Stores	3	328-8300	MN 612-671-3733
11.5	15.8		Average	1	16.0	General Electric	2	328-8300	MN 612-671-3733
21.1	20.5		Average	0	29.5	Wal-Mart Stores	5	328-8300	MN 612-671-3733
2.5			Average	-1	35.3	Freeport-McMoRan Cop./Gold	9	328-8300	MN 612-671-3733
7.0	14.4		High	4	18.9	Paccar	4	328-8300	MN 612-671-3733
15.3	16.2		Low	3	19.4	Philip Morris	3	328-8300	MN 612-671-3733
15.3			Average	0	34.7	Wal-Mart Stores	5	328-8300	MN 612-671-3733
13.6			Average	1	16.2	Emerson Electric	3	328-8300	MN 612-671-3733
			Average	-2	NA	Siemens	3	328-8300	MN 612-671-3733
			Average	0	15.2	Southern	2	328-8300	MN 612-671-3733
11.3	16.4		Low	5	15.9	IBM	2	421-0180	CA 415-421-9360
not rated			High	1	21.8	Transco Exploration	3	833-4264	PA 215-440-4200
6.8			Average	2	NA	BBC Brown Boveri	2	344-8332	NY 212-841-3841
14.5	18.5		Very low	6	17.8	Philip Morris	8	421-0180	CA 213-486-9200
11.9	13.4		Low	2	19.7	Exxon	3	343-7104	MA 617-578-1400
13.2	17.8		Low	13	26.8	Amgen	4	732-1733	CA 213-595-7711
12.0	17.5		Average	6	20.4	Warner-Lambert	2	456-5111	FL 407-393-8900
15.1			Low	8	NA	Cementos Mexicanos	3	456-5111	FL 407-393-8900
20.3	19.1		High	21	25.9	Glaxo	5	525-8983	CO 303-333-3863
not rated			High	17	26.0	Somatogen	4	525-8983	CO 303-333-3863
22.0			High	14	26.3	Glaxo	5	525-8983	CO 303-333-3863
20.7			Very high	16	20.7	Amgen	5	525-8983	CO 303-333-3863
8.9	17.2		Average	8	NA	MKC	3	535-2726	MA 617-439-4640

See pages 84-85 for an explanation of BW Rating, Trend and other terms

DATA: MORNINGSTAR INC.

MUTUAL FUN

FUND	RATING	OBJECTIVE	SIZE		FEES		CURRENT RESULTS		
			ASSETS \$ MIL	% CHG 1990-91	SALES CHARGE (%)	EXPENSE RATIO (%)	1991 TOTAL RET. (%)	YIELD	RANK OBJE
JP GROWTH	AVG	Growth	33.8	31	5.50	0.90	32.2	1.8	141
KAUFMANN	AVG	Maximum growth	140.1	255	0.20*	3.50†	79.4	0.0	
KEMPER BLUE CHIP		Growth/income	76.0	114	5.75	1.58	44.4	0.9	4
KEMPER DIVERSIFIED INCOME		Income	223.2	28	4.50	1.21	51.7	12.6	
KEMPER ENVIRONMENTAL SERVICES		Specialty	64.9	13	5.75	1.54	24.2	0.0	
KEMPER GROWTH	▲ ▲ ▲	Growth	984.6	183	5.75	1.04	66.9	0.3	10
KEMPER INTERNATIONAL		International	180.8	-2	5.75	1.31	9.1	0.0	6
KEMPER INVESTMENT PORT. DIVERS. INC. (m)		Income	243.4	24	3.00**	2.31†	50.9	11.3	
KEMPER INVESTMENT PORT. GROWTH (n)	▲ ▲ ▲	Growth	546.6	81	3.00**	2.28†	57.0	0.0	24
KEMPER INVESTMENT PORT. TOTAL RETURN (o)	▲ ▲	Balanced	747.0	45	3.00**	2.24†	42.5	2.7	
KEMPER RETIREMENT I		Balanced	131.7	29	5.00‡	1.17	43.4	3.3	
KEMPER RETIREMENT II		Balanced	167.9	700	5.00	1.16	41.9	1.9	
KEMPER SUMMIT	AVG	Maximum growth	352.7	71	5.75	1.25	69.0	0.2	
KEMPER TECHNOLOGY	AVG	Technology	646.7	29	5.75	0.71	44.4	0.7	
KEMPER TOTAL RETURN	AVG	Balanced	1087.1	32	5.75	0.87	40.2	3.2	
KEYSTONE AMERICA OMEGA	▲ ▲	Maximum growth	58.7	52	4.75	1.57†	53.9	0.4	1
KEYSTONE CUSTODIAN K-1	AVG	Balanced	1069.7	30	4.00**	1.87†	24.0	4.8	2
KEYSTONE CUSTODIAN K-2	AVG	Growth	365.0	30	4.00**	1.64†	41.2	0.7	78
KEYSTONE CUSTODIAN S-1	AVG	Growth/income	191.1	18	4.00**	2.05†	28.8	1.5	57
KEYSTONE CUSTODIAN S-3		Growth	278.7	30	4.00**	1.58†	42.1	0.8	70
KEYSTONE CUSTODIAN S-4		Maximum growth	783.2	59	4.00**	1.38†	72.7	0.0	
KEYSTONE INTERNATIONAL		International	72.1	-8	4.00**	2.92†	14.2	3.9	4
KEYSTONE PRECIOUS METALS		Precious metals	131.6	-14	4.00**	1.81†	8.2	0.8	
KIDDER PEABODY EQUITY-INCOME	▲ ▲	Equity-income	127.2	77	4.00	1.60†	46.2	1.3	
KLEINWORT INTERNATIONAL EQUITY		International	65.9	-8	No load	1.78†	11.8	4.3	5
LAUREL STOCK		Growth/income	31.6	187	4.50	0.90†	28.9	1.1	56
LAZARD SPECIAL EQUITY	AVG	Small company	111.4	45	No load	1.81	38.2	1.4	5
LEGG MASON SPECIAL INVESTMENT	AVG	Small company	163.6	115	No load	2.30†	39.3	0.2	5
LEGG MASON TOTAL RETURN		Growth/income	40.1	115	No load	2.50†	40.5	1.6	9
LEGG MASON VALUE		Growth	747.9	18	No load	1.90†	34.7	1.4	122
LEXINGTON CORPORATE LEADERS		Growth/income	98.2	15	No load	0.68	19.4	1.8	110
LEXINGTON GLOBAL		International	53.6	6	No load	1.60	15.5	1.3	3
LEXINGTON GOLDFUND		Precious metals	96.4	-9	No load	1.49	-6.1	0.9	1
LEXINGTON GROWTH & INCOME (p)		Growth/income	121.9	16	No load	1.08	24.9	2.0	87
LIBERTY UTILITY		Utilities	334.2	227	4.50	1.02	25.9	5.6	
LINDNER	AVG	Growth	836.3	29	2.00*	0.83	23.4	3.6	215
LINDNER DIVIDEND	▲ ▲	Equity-income	234.5	57	2.00*	0.87	27.4	8.6	1
LORD ABBETT DEVELOPING GROWTH		Small company	159.1	50	6.75	1.24†	56.4	0.2	2
LORD ABBETT GLOBAL EQUITY		International	36.7	11	6.75	1.45†	14.8	1.1	4
LORD ABBETT VALUE APPRECIATION		Growth	166.1	7	6.75	1.12†	27.4	2.2	181
LOSANTIVILLE RELATIVE VALUE		Growth/income	34.7	NM	No load	0.80†	5.0§		
MACKENZIE AMERICAN		Growth	44.9	18	5.75	2.13†	9.4	0.8	245
MACKENZIE N. AMERICAN TOTAL RETURN		Balanced	52.2	-18	5.75	2.12†	16.4	5.8	3
MAINSTAY CAPITAL APPRECIATION	AVG	Growth	92.6	141	5.00**	2.50†	68.4	0.0	5
MAINSTAY TOTAL RETURN		Balanced	164.9	189	5.00**	2.40†	36.8	1.4	
MAINSTAY VALUE	AVG	Growth/income	50.3	57	5.00**	2.40†	41.3	1.5	7
MASS. CAPITAL DEVELOPMENT		Growth	741.1	8	5.75	0.91†	22.4	1.5	222
MASS. FINANCIAL DEVELOPMENT	AVG	Growth	249.3	21	5.75	0.97†	32.6	1.4	139
MASS. FINANCIAL EMERGING GROWTH		Small company	260.0	54	5.75	1.51†	70.2	0.0	1
MASS. FINANCIAL SPECIAL		Growth	111.3	8	5.75	1.61†	23.9	0.8	206
MASS. FINANCIAL TOTAL RETURN	AVG	Balanced	998.7	34	4.75	0.85†	21.6	5.4	2
MASS. INVESTORS	AVG	Growth/income	1530.3	21	5.75	0.66†	27.7	2.6	71
MASS. INVESTORS GROWTH STOCK		Growth	1075.3	38	5.75	0.63†	47.7	0.0	47
MATHERS	▲ ▲ ▲	Growth	516.7	72	No load	0.98	9.4	4.7	244
MENTOR GROWTH (q)		Growth	108.3	29	5.00**	2.24†	50.4	0.0	36
MERRILL LYNCH BALANCED B (r)	AVG	Balanced	1027.6	-10	4.00**	1.98†	25.2	2.5	1
MERRILL LYNCH BASIC VALUE A		Growth	1566.3	21	6.50	0.58	27.2	3.9	183
MERRILL LYNCH CAPITAL A	▲ ▲	Growth/income	1420.1	48	6.50	0.54	25.2	5.0	86
MERRILL LYNCH DEVELOPING CAPITAL MKT.		International	109.7	17	6.00*	1.77	23.4	2.3	1
MERRILL LYNCH EUROFUND B		International	487.8	-1	4.00**	2.17†	15.1	2.9	4

*Includes redemption fee **Includes deferred sales charge. †12(b)-1 plan in effect ‡Not currently accepting new accounts or deposits §New fund, less than 12 months' total return. NA = Not available. MN = Not met (m) Formerly Investment Portfolios Divers. Income (n) Formerly Investment Portfolios Equity Portfolio. (o) Formerly Investment Portfolios Total Return Port. (p) Formerly Lexington Research Fund. (q) Formerly Southeastern Fund (r) Formerly Merrill Lynch Retire. Ben. Inv. Prog. B

COREBOARD

EQUITY FUNDS

RESULTS		TREND	PORTFOLIO DATA			RISK		TELEPHONE	
N/L TOTAL RET. (%)		BW 10-YEAR ANALYSIS	TURNOVER	% CASH	P/E RATIO	LARGEST HOLDING		TOLL FREE (800)	IN-STATE
5 YEARS	10 YEARS					COMPANY	% ASSETS		
13.1	15.7		Low	7	22.2	Unifi	4	458-4498	NC 919-691-3448
19.8			Very high	1	25.1	Kinetic Concepts	8	237-0132	NY 212-344-2661
			Average	0	24.0	Philip Morris	5	621-1048	IL 312-781-1121
9.3	10.1		Average	2	NA	RJR Nabisco	1	621-1048	IL 312-781-1121
not rated			High	17	26.3	Wheelabrator Technologies	5	621-1048	IL 312-781-1121
21.6	19.1		High	5	26.6	Philip Morris	4	621-1048	IL 312-781-1121
8.4	14.9		Very high	7	NA	Kansai Electronic Power	3	621-1048	IL 312-781-1121
7.4			Very low	8	NA	RJR Nabisco	1	621-1048	IL 312-781-1121
18.8			High	4	26.4	Philip Morris	4	621-1048	IL 312-781-1121
14.2			High	4	23.1	Philip Morris	6	621-1048	IL 312-781-1121
not rated			High	0	NA	Philip Morris	2	621-1048	IL 312-781-1121
not rated			High	3	NA	FNMA	1	621-1048	IL 312-781-1121
16.9	16.7		High	6	26.4	Duty Free International	3	621-1048	IL 312-781-1121
14.8	14.8		Low	3	28.0	Bristol-Myers Squibb	9	621-1048	IL 312-781-1121
13.2	15.1		High	18	23.4	Philip Morris	6	621-1048	IL 312-781-1121
19.8	15.3		High	5	26.7	Vicor	4	343-2898	MA 617-338-3400
11.0	14.7		Average	8	19.5	General Electric	3	343-2898	MA 617-338-3400
12.1	15.6		Low	6	23.1	Philip Morris	3	343-2898	MA 617-338-3400
12.1	14.2		Average	3	20.3	Wal-Mart Stores	4	343-2898	MA 617-338-3400
13.0	14.2		Average	5	24.4	US Surgical	3	343-2898	MA 617-338-3400
16.1	12.9		Average	2	29.1	Amgen	4	343-2898	MA 617-338-3400
2.9	11.0		Low	12	20.8	Toyota Motor	3	343-2898	MA 617-338-3400
3.7			Average	5	26.8	American Barrick Resources	9	343-2898	MA 617-338-3400
15.1			High	3	28.1	Home Depot	4		NY 212-510-5041
9.2	13.3		Average	7	NA	Telefonos de Mexico	3	233-9164	NY 212-687-2515
			Average	7	18.4	IBM	3	235-4331	
12.5			Low	16	14.1	National Presto Industries	5	228-0203	NY 212-632-6000
14.7			Average	17	18.2	FNMA	4	822-5544	MD 301-539-3400
8.8			Low	17	14.2	Standard Federal Bank (MI)	3	822-5544	MD 301-539-3400
9.4			Low	9	17.4	FNMA	7	822-5544	MD 301-539-3400
12.7	17.0		High	5	15.9	Union Pacific	9	526-0057	NJ 201-845-7300
			Average	2	17.6	May Department Stores	2	526-0057	NJ 201-845-7300
2.7	5.3		Very low	1	NA	Rustenburg Platinum	5	526-0057	NJ 201-845-7300
9.4	12.7		High	2	19.6	Burlington Northern	4	526-0057	NJ 201-845-7300
			Average	6	13.5	DPL	3	245-5051	PA 412-288-1900
11.7	15.5		Very low	8	13.9	Norsk Hydro	2		MO 314-727-5305
9.7	17.1		Very low	4	19.2	Firstar	3		MO 314-727-5305
11.7	9.7		Very low	11	27.1	Novell	7	874-3733	NY 212-848-1800
			Average	12	15.8	Precision Castparts	2	874-3733	NY 212-848-1800
10.1			Average	9	18.0	Worthington Industries	4	874-3733	NY 212-848-1800
not rated			High	18	NA	Lubrizol	6		OH 513-867-5134
9.4			Very low	12	19.8	Hewlett-Packard	4	456-5111	FL 407-393-8900
4.4			Average	6	16.1	General Motors	3	456-5111	FL 407-393-8900
17.3			Very high	4	26.4	Telefonos de Mexico	3	522-4202	
			Very high	11	21.9	Amgen	2	522-4202	
12.8			High	5	17.9	Telefonos de Mexico	3	522-4202	
11.2	13.6		Average	9	22.9	Murphy Oil	3	225-2606	MA 617-954-5000
12.8	14.7		Average	5	18.5	Pfizer	4	225-2606	MA 617-954-5000
14.3	17.8		High	9	32.6	Office Depot	4	225-2606	MA 617-954-5000
11.6			Average	9	17.1	Unitrin	4	225-2606	MA 617-954-5000
11.7	16.0		Average	8	16.7	Philip Morris	2	225-2606	MA 617-954-5000
15.5	16.0		Low	11	20.9	Bristol-Myers Squibb	5	225-2606	MA 617-954-5000
16.0	15.3		Average	1	29.3	CUC International	5	225-2606	MA 617-954-5000
14.0	13.8		Very high	85	17.5	Placer Dome	4	962-3863	IL 708-295-7400
10.5			Average	5	20.8	Unifi	4	999-4328	VA 804-649-2311
9.2			High	1	18.8	Computer Sciences	2	637-3863	NJ 609-282-2800
10.7	16.5		Low	12	15.0	Royal Dutch Petroleum	5	637-3863	NJ 609-282-2800
13.7	16.8		Average	18	15.8	Glaxo	3	637-3863	NJ 609-282-2800
not rated			Average	11	NA	Telefonos de Mexico	3	637-3863	NJ 609-282-2800
			High	7	NA	Roche Holdings	3	637-3863	NJ 609-282-2800

See pages 84-85 for an explanation of BW Rating, Trend and other terms

DATA: MORNINGSTAR INC

MUTUAL FUN

FUND	RATING	OBJECTIVE	SIZE		FEES		CURRENT RESULTS			RANK OBJ.
			ASSETS \$ MIL.	% CHG. 1990-91	SALES CHARGE (%)	EXPENSE RATIO (%)	1991 TOTAL RET. (%)	YIELD		
MERRILL LYNCH FUND FOR TOMORROW B	AVG	Growth	477.5	9	4.00**	1.99†	30.8	2.0	15	
MERRILL LYNCH GLOBAL ALLOCATION B		International	176.4	53	4.00**	2.31†	27.5	11.6		
MERRILL LYNCH GLOBAL UTILITY B		Utilities	97.8	78	4.00**	2.10†	13.8	4.0		
MERRILL LYNCH GROWTH B (s)		Growth	819.4	66	4.00**	1.90†	23.9	0.1	210	
MERRILL LYNCH INTERNATIONAL A		International	178.5	2	6.50	1.53	17.1	1.0		
MERRILL LYNCH NATURAL RESOURCES B		Natural resources	275.3	-24	4.00**	1.99†	4.8	2.1		
MERRILL LYNCH PACIFIC A		International	304.7	26	6.50	1.04	17.0	2.3		
MERRILL LYNCH PHOENIX A		Growth	121.9	15	6.50	1.42	37.0	8.0	10	
MERRILL LYNCH SPECIAL VALUE A		Small company	49.9	40	6.50	1.87	54.9	0.6		
MERRILL LYNCH STRATEGIC DIVIDEND B		Equity-income	263.0	-11	4.00**	1.90†	14.8	3.2		
MERRIMAN CAPITAL APPRECIATION		Growth	49.1	149	No load	1.48	21.9	1.9	220	
METLIFE-STATE STREET CAPITAL	AVG	Maximum growth	100.6	104	4.50	1.50†	74.5	0.0		
METLIFE-STATE STREET EQUITY-INCOME		Equity-income	49.8	14	4.50	1.50†	18.2	4.6		
METLIFE-STATE STREET EQUITY INVESTMENT		Growth	47.0	47	4.50	1.50†	35.0	0.7	110	
METLIFE-STATE STREET MANAGED		Asset allocation	70.2	16	4.50	1.25†	21.0	4.9		
MFS LIFETIME CAPITAL GROWTH	▲ ▲	Growth	360.7	52	6.00**	2.33†	30.2	0.4	150	
MFS LIFETIME EMERGING GROWTH	AVG	Small company	191.4	151	6.00**	2.66†	87.6	0.0		
MFS LIFETIME GLOBAL EQUITY	AVG	International	94.6	21	6.00**	2.94†	7.3	0.0		
MFS LIFETIME MANAGED SECTORS	▲ ▲	Growth	227.0	40	6.00**	2.52†	59.6	0.0	10	
MFS LIFETIME TOTAL RETURN	AVG	Growth/income	291.8	32	6.00**	2.35†	19.5	2.7	100	
MFS MANAGED SECTORS	AVG	Growth	140.2	40	5.75	1.81†	62.1	0.0	10	
MFS WORLDWIDE TOTAL RETURN		International	33.9	88	4.75	2.26†	21.6	3.3		
MONETTA	▲ ▲ ▲	Growth	56.3	831	No load	1.43	55.9	0.3	20	
MONITOR GROWTH TRUST SHARES		Growth	72.1	98	No load	0.88	26.5	2.5	190	
MONITOR INCOME-EQUITY TRUST SHARES		Equity-income	80.2	76	No load	0.80	23.2	3.4		
MONTGOMERY SMALL CAP		Small company	74.1	296	2.00*	1.87	98.7	0.0		
MSB		Growth	41.3	-2	No load	1.39	17.0	1.3	230	
MUTUAL BEACON	▲ ▲	Growth	399.0	3	No load	0.85	17.6	1.8	230	
MUTUAL BENEFIT	AVG	Growth	45.6	23	4.75	1.01	27.7	2.5	170	
MUTUAL OF OMAHA GROWTH	AVG	Growth	91.5	75	4.75	1.29†	65.0	1.6	10	
MUTUAL OF OMAHA INCOME	▲ ▲	Income	197.2	19	4.75	0.94†	18.6	6.4		
MUTUAL QUALIFIED	▲ ▲	Growth/income	1111.4	3	No load†	0.91	21.1	3.1	100	
MUTUAL SHARES	▲ ▲	Growth	2642.9	5	No load†	0.84	21.0	3.0	230	
N. AMERICAN MODERATE ASSET ALLOC.	AVG	Asset allocation	30.9	-14	4.75	2.40†	21.6	2.4		
NATIONAL AVIATION & TECH.		Technology	73.3	17	5.00	1.67†	31.2	0.3		
NATIONAL GLOBAL ALLOCATION		Asset allocation	54.4	-19	5.75	2.08†	10.2	1.1		
NATIONAL INDUSTRIES	AVG	Growth	33.7	11	No load	1.70	32.0	1.3	140	
NATIONAL STOCK		Growth/income	208.6	7	5.75	1.37†	23.2	1.5	90	
NATIONAL TOTAL INCOME	▲ ▲	Balanced	320.7	44	5.75	1.40†	23.4	4.8		
NATIONAL TOTAL RETURN	AVG	Equity-income	271.7	16	5.75	1.38†	29.0	3.1		
NATIONAL WORLDWIDE OPPORTUNITIES		International	58.9	10	5.75	1.75†	24.5	0.1		
NATIONWIDE	AVG	Growth/income	678.2	38	7.50	0.61	30.2	2.2	40	
NATIONWIDE GROWTH		Growth	295.8	35	7.50	0.68	36.1	2.2	100	
NEUBERGER/BERMAN GENESIS		Small company	42.8	145	No load	2.00	41.5	0.1		
NEUBERGER/BERMAN GUARDIAN	AVG	Growth/income	683.0	31	No load	0.84	34.3	2.0	20	
NEUBERGER/BERMAN MANHATTAN		Growth	463.0	26	No load	1.09	30.9	0.9	150	
NEUBERGER/BERMAN PARTNERS	AVG	Growth	891.0	23	No load	0.88	22.4	1.8	220	
NEUBERGER/BERMAN SELECTED SECTORS	AVG	Growth	421.3	13	No load	0.93	24.7	1.7	200	
NEUWIRTH		Small company	32.2	41	No load	1.87	50.5	0.2		
NEW CENTURY CAPITAL		Growth	39.2	17	No load	1.16†	34.9	0.1	120	
NEW ECONOMY	AVG	Growth	1006.5	26	5.75	0.92†	29.2	1.2	160	
NEW ENGLAND BALANCED		Balanced	67.5	29	6.50	1.57†	29.2	3.0		
NEW ENGLAND GROWTH	▲ ▲	Growth	996.8	62	6.50	1.16†	56.7	0.7	20	
NEW ENGLAND RETIREMENT EQUITY		Growth/income	145.8	5	6.50	1.28†	27.1	1.9	70	
NEW PERSPECTIVE	AVG	International	2457.8	57	5.75	0.82†	22.6	2.1		
NEW YORK VENTURE	▲ ▲	Growth	459.0	34	4.75	0.97†	40.5	1.7	80	
NEWTON GROWTH		Growth	37.6	19	No load	1.30	25.8	1.8	200	
NICHOLAS	▲	Growth	2103.1	52	No load	0.80	42.0	1.4	70	
NICHOLAS II	AVG	Small company	557.4	57	No load	0.70	39.6	1.0		
NICHOLAS LIMITED EDITION		Small company	175.3	147	No load†	0.96	43.2	0.7		

* Involvement in... ** Under deferred... † 12(b)(1) plan in effect... ‡ Not currently accepting new accounts or deposits. \$ New fund, less than 12 months' total return. NA = Not available. MN = Not met. (s) Formerly Merrill Lynch Retirement Equity Fund B.

COREBOARD

EQUITY FUNDS

RESULTS		TREND	PORTFOLIO DATA			RISK		TELEPHONE	
ANNUAL TOTAL RET. (%)	5 YEARS	BW 10-YEAR ANALYSIS	TURNOVER	% CASH	P/E RATIO	LARGEST HOLDING COMPANY	% ASSETS	TOLL FREE (800)	IN-STATE
12.4			Low	7	19.3	Walt Disney	4	637-3863	NJ 609-282-2800
not rated			Average	45	15.7	Nestle	2	637-3863	NJ 609-282-2800
not rated			Average	10	NA	Texas Utilities	4	637-3863	NJ 609-282-2800
			Low	0	20.4	US Healthcare	7	637-3863	NJ 609-282-2800
9.0			Low	5	19.3	IBM	2	637-3863	NJ 609-282-2800
7.7			Average	16	23.9	Pennzoil	6	637-3863	NJ 609-282-2800
12.9	20.7		Low	4	NA	Fuji Fire & Marine Insurance	8	637-3863	NJ 609-282-2800
10.7			Average	7	18.7	Home Shopping Network	3	637-3863	NJ 609-282-2800
1.5	6.5		Average	31	14.4	Instron	6	637-3863	NJ 609-282-2800
			Very low	9	16.6	Bristol-Myers Squibb	7	637-3863	NJ 609-282-2800
not rated			High	30	NA	Scudder Development Fund	3	423-4893	WA 206-285-8877
20.4			Very high	5	27.2	US Surgical	3	882-0052	MA 617-348-2000
7.9			High	3	19.7	American Express	3	882-0052	MA 617-348-2000
12.1			Average	2	23.0	Merck	3	882-0052	MA 617-348-2000
			Average	6	20.3	Deere	2	882-0052	MA 617-348-2000
16.4			Average	11	19.2	Philip Morris	4	225-2606	MA 617-954-5000
21.5			Average	5	34.0	CUC International	11	225-2606	MA 617-954-5000
11.7			High	13	23.0	Astra	2	225-2606	MA 617-954-5000
19.3			Average	6	33.7	Tele-Communications	8	225-2606	MA 617-954-5000
7.8			High	10	16.9	Dayton-Hudson	2	225-2606	MA 617-954-5000
17.1			Average	5	34.7	Tele-Communications	8	225-2606	MA 617-954-5000
not rated			Very high	4	NA	Philip Morris	1	225-2606	MA 617-954-5000
20.1			Very high	29	21.5	Compression Laboratories	4	666-3882	IL 708-462-9800
not rated			Low	6	20.6	Waste Management	4	253-0412	OH 614-463-5580
not rated			Average	7	17.2	IBM	3	253-0412	OH 614-463-5580
not rated			Average	10	20.7	Sci-Med Life Systems	4		CA 415-627-2400
9.6	14.1		Low	12	15.7	Reebok International	6	High	NY 212-551-1920
13.0	13.0		Average	10	16.3	Multimedia	2	Very low	553-3014 NJ 201-912-2100
14.0	18.1		Very low	12	19.8	Gillette	7	Low	323-4726 RI 401-751-8600
19.1	16.9		Average	7	25.9	Sci-Med Life Systems	10	High	228-9596 NE 800-642-8112
11.3	13.0		Average	8	22.4	Corning	3	Very low	228-9596 NE 800-642-8112
11.8	16.4		Average	15	17.6	ITT	2	Very low	553-3014 NJ 201-912-2100
11.8	16.4		Low	17	16.7	Sunbeam-Oster Equities	3	Low	553-3014 NJ 201-912-2100
9.2			Average	3	21.1	Philip Morris	2	Low	872-8037 MA 617-439-6960
10.1	11.8		Low	12	22.0	UAL	18	High	225-5291
			High	5	17.8	Philip Morris	1		356-5535 CT 203-863-5600
14.4	10.5		Average	1	21.6	US Surgical	4	Average	
11.1	13.6		High	9	18.3	Mattel	4	Average	356-5535 CT 203-863-5600
12.1	16.5		Low	7	14.8	Philip Morris	4	Very low	356-5535 CT 203-863-5600
11.3	15.4		Low	5	17.9	Philip Morris	8	Low	356-5535 CT 203-863-5600
2.5	6.7		Average	4	19.6	Coherent	3	Very high	356-5535 CT 203-863-5600
15.8	17.5		Very low	3	20.3	Philip Morris	6	Average	848-0920 OH 614-249-7855
12.6	17.7		Very low	12	20.5	Grand Metropolitan	8	Average	848-0920 OH 614-249-7855
			Average	11	17.1	Venture Stores	3		877-9700 NY 212-476-8800
14.5	16.9		Average	2	17.3	FNMA	4	High	877-9700 NY 212-476-8800
13.0	17.8		Average	4	19.8	FNMA	2	High	877-9700 NY 212-476-8800
11.4	15.6		High	3	19.1	Loews	3	Low	877-9700 NY 212-476-8800
12.3	12.0		Average	3	17.1	FNMA	3	Average	877-9700 NY 212-476-8800
12.0	13.4		Average	2	22.2	FHLMC	5	High	225-8011 NY 212-504-4000
not rated			High	4	NA	AIM Weingarten Fund	7		MA 800-244-7055
13.2			Low	11	16.7	FNMA	7	Average	421-0180 CA 213-486-9200
7.2	12.8		Average	1	14.6	Martin Marietta	2	Average	343-7104 MA 617-267-6600
19.3	21.8		Very high	2	23.1	Philip Morris	8	High	343-7104 MA 617-267-6600
8.0	13.9		Low	0	15.9	Salomon Brothers Fund	2	High	343-7104 MA 617-267-6600
13.6	17.1		Very low	14	20.3	Philip Morris	4	Low	421-0180 CA 213-486-9200
17.0	19.4		Average	2	17.9	FNMA	4	Average	279-0279 NM 505-983-4335
9.2	13.0		Average	6	17.8	FHLMC	4	Average	242-7229 WI 414-347-1141
14.5	18.1		Very low	10	18.4	Philip Morris	4	Low	WI 414-272-6133
14.3			Very low	11	17.7	Vivra	3	Average	WI 414-272-6133
			Low	11	18.8	Standard Commercial	3		WI 414-272-6133

See pages 84-85 for an explanation of BW Rating, Trend and other terms

DATA: MORNINGSTAR INC

MUTUAL FUN

FUND	RATING	OBJECTIVE	SIZE ASSETS \$ MIL.	% CHG. 1990-91	FEES		CURRENT RESULTS		RANK OBJ.
					SALES CHARGE (%)	EXPENSE RATIO (%)	1991 TOTAL RET. (%)	YIELD	
NICHOLAS-APPGATE GROWTH EQUITY A		Maximum growth	62.9	-48	5.25	1.80†	55.4	0.0	
NOMURA PACIFIC BASIN		International	51.7	6	No load	1.48	11.7	3.5	
NORTHEAST INVESTORS GROWTH	AVG	Growth	40.8	50	No load	1.60	37.0	2.9	10
OLYMPIC EQUITY-INCOME		Equity-income	78.1	52	No load	1.00	34.6	3.0	
OLYMPUS STOCK (I)	▲ ▲ ▲	Growth	37.2	90	4.75	2.11	43.6	0.7	6
OPPENHEIMER		Growth	230.2	29	5.75	1.07†	29.0	3.2	16
OPPENHEIMER ASSET ALLOCATION		Asset allocation	277.2	234	5.75	1.28†	14.7	3.8	
OPPENHEIMER DISCOVERY	▲ ▲ ▲	Small company	166.7	208	5.75	1.42†	72.3	0.0	
OPPENHEIMER EQUITY-INCOME	AVG	Equity-income	1587.9	25	5.75	0.79†	17.3	5.1	
OPPENHEIMER GLOBAL	AVG	International	1170.6	45	5.75	1.77†	27.4	0.3	
OPPENHEIMER GLOBAL BIO-TECH		Health care	201.6	765	5.75‡	1.50†	121.1	0.0	
OPPENHEIMER GLOBAL ENVIRONMENT		Specialty	58.5	10	5.75	1.62†	3.4	0.2	
OPPENHEIMER GLOBAL GROWTH & INCOME		International	31.5	147	5.75	2.25†	15.0	2.7	
OPPENHEIMER GOLD & SPECIAL MINERALS		Precious metals	135.8	-13	5.75	1.43†	0.3	1.9	
OPPENHEIMER SPECIAL	AVG	Growth	665.7	37	5.75	0.94†	44.0	1.4	5
OPPENHEIMER TARGET		Maximum growth	369.4	601	5.75	1.44†	41.3	0.7	
OPPENHEIMER TIME	AVG	Growth	403.1	39	5.75	0.96†	39.2	1.2	8
OPPENHEIMER TOTAL RETURN	AVG	Growth/income	555.4	40	5.75	0.97†	36.3	2.9	1
OPPENHEIMER VALUE STOCK	AVG	Growth/income	49.3	23	5.75	1.27†	25.2	2.4	8
OVERLAND EXPRESS ASSET ALLOCATION		Asset allocation	38.7	35	4.50	1.53†	20.7	4.8	
PACIFIC HORIZON AGGRESSIVE GROWTH	▲ ▲	Maximum growth	150.0	83	4.50	1.55†	70.8	0.0	
PACIFICA BALANCED		Balanced	55.8	53	4.50	0.96†	18.5	4.1	
PACIFICA GROWTH		Growth	78.0	127	4.50	0.96†	20.8	2.0	23
PAINEWEBBER ASSET ALLOCATION B	AVG	Asset allocation	364.4	-10	5.00**	2.03†	18.6	3.2	
PAINEWEBBER ATLAS GLOBAL A		International	203.4	-1	4.50	1.58†	9.4	1.4	
PAINEWEBBER BLUE CHIP GROWTH B (u)	AVG	Growth	114.8	26	5.00**	2.46†	32.7	0.0	13
PAINEWEBBER DIVIDEND GROWTH A	▲ ▲	Growth/income	302.3	436	4.50	1.42†	35.4	1.2	1
PAINEWEBBER EUROPE GROWTH A (v)		International	128.9	-15	4.50	1.78†	-0.1	3.0	
PAINEWEBBER GLOBAL GROWTH & INC. A (w)		International	82.3	-13	4.50	1.95†	10.5	4.7	
PAINEWEBBER GLOBAL ENERGY B (x)		Natural resources	51.6	-9	5.00**	2.50†	9.3	1.1	
PAINEWEBBER GROWTH A	▲ ▲	Growth	108.5	52	4.50	1.56†	47.8	0.0	4
PAINEWEBBER REGIONAL FINANCIAL GRTH. A (y)	AVG	Financial	45.3	18	4.50	1.36†	65.5	1.7	
PARKSTONE EQUITY		Growth/income	360.5	35	4.50	1.10	27.8	2.3	7
PARKSTONE HIGH-INCOME EQUITY		Equity-income	217.0	111	4.50	1.13	25.0	4.1	
PARKSTONE SMALL CAPITALIZATION VALUE		Small company	158.4	81	4.50	1.15	43.9	0.3	
PARNASSUS		Growth	31.8	53	3.50	1.77	52.5	3.9	3
PASADENA GROWTH	▲ ▲	Growth	323.5	301	5.50	2.20	67.8	0.0	
PASADENA NIFTY FIFTY		Growth	64.1	12072	5.50	0.65	67.5	0.6	
PAX WORLD	▲ ▲ ▲	Balanced	270.5	126	No load	1.30†	20.7	4.8	
PENN SQUARE MUTUAL	AVG	Growth/income	228.2	20	4.75	0.93†	28.5	3.2	6
PENNSYLVANIA MUTUAL	AVG	Small company	789.1	44	1.00*	0.94	31.8	1.6	
PEOPLES INDEX		Growth/income	76.6	102	1.00*	0.00	29.9	2.6	5
PERMANENT PORTFOLIO	AVG	Balanced	71.9	-11	No load	1.16†	8.1	6.0	
PHILADELPHIA		Growth/income	84.4	-5	No load	1.58†	5.7	1.6	11
PHOENIX BALANCED	▲ ▲	Balanced	1108.0	117	4.75	0.98†	25.9	3.5	
PHOENIX CAPITAL APPRECIATION		Growth	147.8	710	4.75	1.36†	47.9	1.2	4
PHOENIX GROWTH	▲ ▲	Growth	1451.8	95	4.75	1.15†	28.0	1.9	17
PHOENIX STOCK		Maximum growth	130.0	18	4.75	1.20†	29.6	1.5	
PHOENIX TOTAL RETURN	▲ ▲	Growth/income	35.2	18	4.75	1.54†	28.6	2.2	6
PILGRIM MAGNACAP		Growth	205.8	4	4.75	1.50†	25.3	2.0	20
PINE STREET	AVG	Growth/income	48.8	7	No load	1.23	23.7	2.6	9
PIONEER		Growth/income	1615.0	16	5.75	0.78†	22.8	2.7	9
PIONEER II		Growth/income	4176.0	11	5.75	0.85†	25.8	2.6	8
PIONEER THREE		Small company	727.0	25	5.75	0.74†	36.5	2.2	
PIPER JAFFRAY EMERGING GROWTH		Small company	75.9	223	4.00	1.30†	65.4	0.1	
PIPER JAFFRAY VALUE		Growth	137.0	151	4.00	1.32†	47.9	1.0	4
PNC CAPITAL APPRECIATION		Growth	54.0	41	4.50	0.85†	26.0	2.0	20
PORTICO EQUITY INDEX		Growth/income	54.6	38	No load	0.50	30.0	2.5	5
PORTICO INCOME & GROWTH		Equity-income	101.6	42	No load	0.75	21.2	2.6	
PORTICO SPECIAL GROWTH		Growth	128.5	177	No load	0.75	58.0	0.7	2

*No sales charge; **No deferred sales charge; †1.2 bpt plan in effect; ‡Not currently accepting new accounts or deposits; §New fund, less than 12 months total return; NA=Not available; MN=Not met; (I) Formerly Associated Planners Stock Fund; (u) Formerly PaineWebber Master Growth Fund; (v) Formerly PaineWebber Classic Europe Growth Fund; (w) Formerly PaineWebber Classic World Fund; (x) Formerly PaineWebber Classic Value Fund; (y) Formerly PaineWebber Classic Regional Fund.

COREBOARD

EQUITY FUNDS

RESULTS		TREND	PORTFOLIO DATA				RISK	TELEPHONE		
5 YEARS	10 YEARS	BW 10-YEAR ANALYSIS	TURNOVER	% CASH	P/E RATIO	LARGEST HOLDING COMPANY	% ASSETS	TOLL FREE (800)	IN-STATE	
12.5	16.1		High	0	27.8	Medco Containment Services	5	225-1852	NY 212-208-9366	
15.0			Average	8	NA	Ito-Yokado	3	833-0018	MA 617-523-3588	
			Low	3	23.2	Merck	8	225-6704	CA 213-623-7833	
			Low	19	16.7	PPG Industries	5	346-7301	CA 213-553-6740	
19.6			Very high	21	25.2	Pfizer	3	Average	950-2748	CA 213-553-6740
9.9	9.5		High	7	18.3	Xerox	2	Average	525-7048	CO 303-671-3200
			Average	3	20.0	Manor Care	1	525-7048	CO 303-671-3200	
21.7			High	13	29.6	RJR Nabisco	2	Average	525-7048	CO 303-671-3200
11.3			Average	13	17.3	Commonwealth Edison	2	Very low	525-7048	CO 303-671-3200
15.2	17.4		Low	0	NA	Bombardier	4	Average	525-7048	CO 303-671-3200
not rated			Very low	22	NA	Synergen	5	525-7048	CO 303-671-3200	
			High	1	27.0	Waste Management	3	525-7048	CO 303-671-3200	
			Average	0	NA	Astra	4	525-7048	CO 303-671-3200	
	13.0		High	12	27.4	Horsham	6	525-7048	CO 303-671-3200	
12.8	13.1		Low	1	21.4	Home Depot	4	Average	525-7048	CO 303-671-3200
12.2	16.6		Average	5	19.9	PepsiCo	2	High	525-7048	CO 303-671-3200
15.3	18.0		High	10	24.8	RJR Nabisco	3	Low	525-7048	CO 303-671-3200
14.7	15.5		High	4	20.9	Texas Utilities	2	Low	525-7048	CO 303-671-3200
11.9			High	8	18.9	Minnesota Mining & Mfg	4	Low	525-7048	CO 303-671-3200
			Average	1	19.0	IBM	1		552-9612	AR 501-377-2569
22.6			High	0	26.6	Amgen	3	High	332-3863	
not rated			Low	8	17.8	Royal Dutch Petroleum	2		662-8417	NY 212-309-8400
not rated			Low	4	17.8	Royal Dutch Petroleum	5		662-8417	NY 212-309-8400
8.6			High	2	19.9	Motorola	1	Very low	647-1568	NJ 201-902-7341
9.2			Average	8	NA	FNMA	2	Average	647-1568	NJ 201-902-7341
12.1			Low	6	22.6	Philip Morris	4	Average	647-1568	NJ 201-902-7341
14.0			Average	2	21.3	Philip Morris	3	Low	647-1568	NJ 201-902-7341
not rated			Average	6	NA	AGA Aktiebolag	2		647-1568	NJ 201-902-7341
not rated			Average	13	NA	Waste Management	2		647-1568	NJ 201-902-7341
			Average	10	14.8	Repsol	7		647-1568	NJ 201-902-7341
18.5			Low	1	27.9	FNMA	5	Average	647-1568	NJ 201-902-7341
13.0			Low	2	14.7	FNMA	3	Average	647-1568	NJ 201-902-7341
			High	18	20.2	Bristol-Myers Squibb	4		451-8377	OH 614-899-4668
			High	6	17.9	Philip Morris	4		451-8377	OH 614-899-4668
			High	4	29.9	System Software Associates	5		451-8377	OH 614-899-4668
10.1			Low	3	19.4	Ask Computer Systems	7	High	999-3505	CA 415-362-3505
21.5			Low	2	24.1	Coca-Cola	4	High	882-2855	CA 818-351-4276
not rated			Low	6	22.0	Philip Morris	4		882-2855	CA 818-351-4276
13.8	15.2		Low	12	14.6	Hechinger	6	Very low	767-1729	NH 603-431-8022
12.9	15.2		Average	9	20.6	Glaxo Holdings	3	Low	523-8440	PA 800-222-7506
11.4	16.7		Low	14	18.5	Farmer Brothers	1	Low	221-4268	NY 212-355-7311
not rated			Low	4	19.5	Exxon	3		645-6561	NY 718-895-1206
4.8			Low	8	19.8	World Money Securities	1	Very low	531-5142	TX 512-453-7558
8.2	10.0		Average	32	17.7	Capital Cities/ABC	6	Average	749-9933	FL 407-395-2155
13.8	18.7		Very high	13	18.8	General Electric	3	Very low	243-4361	CT 203-253-1000
not rated			Very high	14	20.3	BankAmerica	3		243-4361	CT 203-253-1000
15.5	20.7		Very high	17	17.3	AT&T	3	Low	243-4361	CT 203-253-1000
11.5	17.9		Very high	9	19.2	Telefonos de Mexico	4	Average	243-4361	CT 203-253-1000
12.8			Very high	12	19.3	Telefonos de Mexico	3	Very low	243-4361	CT 203-253-1000
11.5	15.5		High	0	17.8	Merck	6	Average	331-1080	CA 213-551-0833
10.4	13.9		Average	-1	20.4	GTE	7	Low	225-8011	NY 212-504-4000
10.9	12.7		Very low	2	17.9	Mobil	2	Average	225-6292	MA 617-742-7825
10.9	14.4		Average	6	17.9	Air Products & Chemicals	2	Average	225-6292	MA 617-742-7825
11.4			Very low	2	18.9	Family Dollar Stores	2	Average	225-6292	MA 617-742-7825
not rated			Low	4	NA	Minntech	3		333-6000	MN 612-342-6376
			Low	2	21.9	Philip Morris	3		333-6000	MN 612-342-6376
not rated			Very high	3	20.0	CPC International	5		441-7762	DE 302-791-1111
not rated			Very low	0	19.0	IBM	3		228-1024	WI 414-287-3808
not rated			Low	12	18.0	H&R Block	4		228-1024	WI 414-287-3808
not rated			Average	12	24.0	Surgical Care Affiliates	6		228-1024	WI 414-287-3808

See pages 84-85 for an explanation of BW Rating, Trend and other terms

DATA: MORNINGSTAR INC.

MUTUAL FUN

FUND	RATING	OBJECTIVE	SIZE ASSETS \$ MIL.	% CHG 1990-91	FEES SALES CHARGE (%)	EXPENSE RATIO (%)	CURRENT RESULTS		RANK OF OB.
							1991 TOTAL RET. (%)	YIELD	
T. ROWE PRICE CAPITAL APPRECIATION	▲ ▲	Growth	215.7	52	No load	1.25	21.6	3.7	22
T. ROWE PRICE EQUITY-INCOME	AVG	Equity-income	1335.4	55	No load	1.04	25.3	4.1	
T. ROWE PRICE EUROPEAN STOCK		International	104.0	5	No load	0.87	7.3	0.8	
T. ROWE PRICE GROWTH STOCK		Growth	1846.0	32	No load	0.76	33.8	1.3	13
T. ROWE PRICE GROWTH & INCOME	AVG	Growth/income	655.5	38	No load	0.97	31.5	4.0	3
T. ROWE PRICE INTERNATIONAL DISCOVERY		International	166.8	22	No load	1.50	11.7	1.0	
T. ROWE PRICE INTERNATIONAL STOCK	▲	International	1476.3	43	No load	1.09	15.9	1.5	
T. ROWE PRICE NEW AMERICA GROWTH	AVG	Growth	231.7	142	No load	1.25	62.0	0.0	14
T. ROWE PRICE NEW ASIA		International	102.9	NM	No load	1.75	19.3	1.7	
T. ROWE PRICE NEW ERA	AVG	Natural resources	756.8	7	No load	0.87	14.7	2.7	
T. ROWE PRICE NEW HORIZONS	▲	Small company	1470.4	72	No load	0.90	52.2	0.3	
T. ROWE PRICE SCIENCE & TECHNOLOGY	▲	Technology	166.0	170	No load	1.25	60.2	0.0	
T. ROWE PRICE SMALL-CAP VALUE		Small company	53.2	101	No load	1.25	34.2	1.1	
T. ROWE PRICE SPECTRUM GROWTH		Growth	148.7	320	No load	0.00	29.9	1.9	16
PRIMARY TREND	AVG	Growth/income	35.8	14	No load	1.20	19.5	3.6	10
PRIMECAP	▲	Growth	486.0	60	No load	0.72	33.1	0.9	13
PRINCOR CAPITAL ACCUMULATION		Growth	166.5	39	5.00	0.99†	37.2	2.3	9
PRINCOR GROWTH	AVG	Growth	51.1	58	5.00	1.13†	56.6	1.4	2
PROVIDENTMUTUAL GROWTH	▲	Growth	160.5	39	6.00	1.79†	50.1	0.0	3
PROVIDENTMUTUAL INVESTMENT	▲	Growth	182.7	3	6.00	1.45†	15.7	1.1	24
PROVIDENTMUTUAL TOTAL RETURN	▲	Balanced	72.5	23	6.00	1.53†	18.3	3.8	
PRUDENTIAL EQUITY B (z)	AVG	Growth	905.2	57	5.00**	1.89†	23.5	1.3	21
PRUDENTIAL EQUITY-INCOME B (aa)		Equity-income	160.9	27	5.00**	2.23†	25.6	2.3	
PRUDENTIAL FLEXIFUND CONSERV. MGD. B (bb)		Asset allocation	184.9	28	5.00**	2.14†	21.4	3.2	
PRUDENTIAL FLEXIFUND STRATEGY B (cc)		Asset allocation	268.8	55	5.00**	2.11†	25.5	2.8	
PRUDENTIAL GLOBAL B (dd)	▲	International	242.6	-5	5.00**	2.60†	12.3	0.0	
PRUDENTIAL GROWTH B (ee)	▲	Growth	280.0	8	5.00**	2.16†	23.8	1.0	21
PRUDENTIAL GROWTH OPPORTUNITY B (ff)	▲	Small company	143.5	63	5.00**	2.39†	38.7	0.0	
PRUDENTIAL MULTI-SECTOR B (gg)	▲	Growth	118.0	44	5.00**	2.15†	26.7	1.6	19
PRUDENTIAL TOTAL RETURN B (hh)	AVG	Option	47.2	-12	5.00**	2.90†	10.3	0.5	
PRUDENTIAL UTILITY B	AVG	Utilities	2839.1	19	5.00**	1.68†	19.0	3.9	
PUTNAM ENERGY-RESOURCES	AVG	Natural resources	110.9	-6	5.75	1.53†	7.2	2.6	
PUTNAM FUND FOR GROWTH & INCOME	AVG	Growth/income	2799.8	32	5.75	0.95†	19.2	4.7	11
PUTNAM GLOBAL GROWTH		International	660.4	18	5.75	1.47†	18.0	1.5	
PUTNAM HEALTH SCIENCES	▲ ▲ ▲	Health care	906.4	141	5.75	1.18†	49.1	0.8	
PUTNAM INFORMATION SCIENCES	▲	Technology	101.1	18	5.75†	1.30†	34.8	0.1	
PUTNAM INVESTORS	▲	Growth	756.5	18	5.75	0.89†	28.6	1.6	17
PUTNAM OPTION INCOME II	▲	Option	698.5	-5	5.75	1.09†	24.1	1.6	
PUTNAM OTC EMERGING GROWTH	▲	Small company	274.1	49	5.75	1.48†	40.8	0.0	
PUTNAM STRATEGIC INCOME (ii)	▲	Equity-income	421.2	-26	5.75	1.09†	24.6	4.3	
PUTNAM UTILITIES GROWTH & INCOME		Utilities	239.9	2657	5.75	0.91†	14.4	6.0	
PUTNAM VISTA	AVG	Growth	314.2	32	5.75	0.99†	37.2	2.5	9
PUTNAM VOYAGER	▲ ▲	Maximum growth	1320.0	76	5.75	1.10†	50.3	0.3	
QUEST FOR VALUE	▲	Growth	111.9	102	5.50	1.83†	32.8	0.7	13
QUEST FOR VALUE GLOBAL EQUITY		International	140.7	143	5.50	1.94†	15.8	0.1	
REA-GRAHAM BALANCED	AVG	Balanced	30.3	-16	4.75	2.08†	14.7	5.0	
REICH & TANG EQUITY	AVG	Growth	83.2	-14	No load	1.12†	23.1	2.3	21
RETIREMENT PLANNING EQUITY	AVG	Growth	43.1	78	5.00**	2.60†	40.9	0.8	8
REYNOLDS BLUE CHIP GROWTH		Growth	34.5	152	No load	1.70	35.9	0.6	11
RIGHTTIME	▲ ▲	Growth/income	173.9	25	No load	2.55†	30.1	0.4	5
RIGHTTIME BLUE CHIP		Growth/income	200.6	44	4.75	2.30†	23.1	1.1	9
RIGHTTIME GROWTH		Growth	42.8	8	4.75	1.92†	26.0	1.0	19
ROBERTSON STEPHENS EMERGING GROWTH		Small company	141.5	518	No load	1.53†	58.5	0.0	
RODNEY SQUARE GROWTH		Growth	56.6	39	5.75	1.50†	41.5	0.5	7
RODNEY SQUARE INTERNATIONAL EQUITY		International	41.3	-25	5.75	1.75†	11.9	0.4	
ROYCE EQUITY-INCOME		Equity-income	41.1	111	No load	0.96	30.3	4.4	
ROYCE VALUE	AVG	Small company	167.5	13	4.50**	1.89†	30.7	1.0	
RUSHMORE NOVA		Maximum growth	51.7	26	No load	1.13	15.7	4.5	
RUSHMORE OTC INDEX PLUS	▲	Small company	63.9	800	No load	0.91	50.5	0.0	
SAFFCO EQUITY	AVG	Growth/income	75.8	36	No load	0.98	27.9	1.6	61

* Includes redemption fee. ** Includes deferred sales charge. † 12(b)(1) plan in effect. ‡ Not currently accepting new accounts or deposits. § New fund less than 12 months total return. NA = Not available. MN = Not measured. (z) Formerly Prudential-Bache Equity Fund Class B (aa) Formerly Prudential-Bache Equity Income Fund Class B (bb) Formerly Prudential-Bache FlexiFund Conserv. Mgd. B (cc) Formerly Prudential-Bache FlexiFund Strategy B (dd) Formerly Prudential-Bache Global Fund Class B (ee) Formerly Prudential-Bache Research Fund Class B (ff) Formerly Prudential-Bache Growth Opportunity B (gg) Formerly Prudential-Bache Multi-Sector Class B (hh) Formerly Prudential-Bache Option

COREBOARD

EQUITY FUNDS

RESULTS		TREND	PORTFOLIO DATA			RISK		TELEPHONE	
5 YEARS	10 YEARS	BW 10 YEAR ANALYSIS	TURNOVER	% CASH	P/E RATIO	LARGEST HOLDING COMPANY	% ASSETS	TOLL FREE (800)	IN-STATE
13.3			Average	23	18.2	Entergy	3	638-5660	MD 301-547-2308
11.9			Low	11	19.1	IBM	3	638-5660	MD 301-547-2308
not rated			Average	7	NA	EuroDisney	2	638-5660	MD 301-547-2308
12.1	14.1		Low	3	21.7	FHLMC	4	638-5660	MD 301-547-2308
10.8			Average	9	18.3	Philip Morris	4	638-5660	MD 301-547-2308
			Average	6	NA	Kumagai-Gumi	2	638-5660	MD 301-547-2308
10.7	17.5		Average	8	NA	Telefonos de Mexico	3	638-5660	MD 301-547-2308
16.1			Average	10	24.4	Medco Containment Services	4	638-5660	MD 301-547-2308
not rated			Very low	7	NA	New World Development	2	638-5660	MD 301-547-2308
11.1	12.4		Very low	9	21.6	Wal-Mart Stores	7	638-5660	MD 301-547-2308
12.9	11.7		Low	7	24.6	Medco Containment Services	4	638-5660	MD 301-547-2308
			High	6	26.6	Adobe Systems	7	638-5660	MD 301-547-2308
			Low	14	16.0	Seattle Film Works	3	638-5660	MD 301-547-2308
not rated			Average	0	20.4	T. Rowe Price New Horizons	22	638-5660	MD 301-547-2308
9.4			Average	11	18.1	Eastman Kodak	6	443-6544	WI 414-271-7870
12.0			Very low	15	21.1	Intel	4	662-7447	PA 215-669-1000
11.2	16.3		Low	4	18.9	Merck	4	451-5447	IA 515-247-6833
15.9	15.3		Very low	5	22.3	United Healthcare	7	451-5447	IA 515-247-6833
10.8	16.3		Low	8	25.8	Philip Morris	3	441-9490	DE 302-456-1010
7.6	13.4		Low	14	17.7	First Financial Management	5	441-9490	DE 302-456-1010
7.6	13.2		Average	1	17.9	Monsanto	3	441-9490	DE 302-456-1010
12.6			Average	7	17.5	Kmart	3	225-1852	
			Average	6	16.0	General Public Utilities	4	225-1852	
			High	1	19.6	Seagram	2	225-1852	
			High	0	18.9	Seagram	2	225-1852	
4.4			Low	7	19.6	Resorts World	2	225-1852	
9.8			Average	10	20.3	Imcera Group	3	225-1852	
10.5	11.6		Average	11	22.0	Learonal	5	225-1852	
not rated			Very high	7	19.7	Waste Management	5	225-1852	
9.1			Low	15	18.2	Seagram	4	225-1852	
11.4			Average	6	14.9	General Public Utilities	5	225-1852	
12.4	5.9		Low	2	17.6	Texaco	4	225-1581	MA 617-292-1000
12.7	16.3		Average	17	16.2	ITT	4	225-1581	MA 617-292-1000
9.3	17.5		Average	8	19.5	Pfizer	2	225-1581	MA 617-292-1000
23.2			Low	13	25.6	Bristol-Myers Squibb	6	225-1581	MA 617-292-1000
15.7			High	9	25.1	Intel	4	225-1581	MA 617-292-1000
13.4	15.3		Average	5	19.3	Philip Morris	4	225-1581	MA 617-292-1000
9.8			High	15	20.0	IBM	3	225-1581	MA 617-292-1000
14.8			Average	3	26.2	Watts Industries	2	225-1581	MA 617-292-1000
8.6	11.4		Very high	5	16.9	General Electric	2	225-1581	MA 617-292-1000
not rated			High	4	16.5	GTE	5	225-1581	MA 617-292-1000
14.1	16.8		Average	7	17.9	Philip Morris	3	225-1581	MA 617-292-1000
19.6	19.2		Average	7	26.8	Tele-Communications	3	225-1581	MA 617-292-1000
11.3	17.7		Average	9	17.3	Fruit Of The Loom	4	232-3863	NY 212-667-7587
not rated			High	11	NA	SmithKline Beecham	3	232-3863	NY 212-667-7587
5.3			High	17	11.5	ABN AMRO	2	433-1998	CA 213-208-2282
12.1			Low	9	21.3	Hasbro	5	221-3079	NY 212-370-1248
16.8			Low	4	17.8	Pfizer	8	279-0279	NM 505-983-4335
			Very low	1	25.0	Merck	4		CA 415-461-7860
11.8			Very high	1	22.5	Fidelity Magellan Fund	5	242-1421	PA 215-887-8111
			Very high	1	19.5	Exxon	3	242-1421	PA 215-887-8111
			Very high	1	18.8	Philip Morris	8	242-1421	PA 215-887-8111
			Very high	15	28.2	Homedco Group	3	766-FUND	CA 415-781-9700
			Low	14	23.0	Bristol-Myers Squibb	2	225-5084	
			Average	5	NA	Siemens	2	225-5084	
not rated			Average	9	17.8	Susquehanna Bancshares	1	221-4268	NY 212-355-7311
10.2			Low	11	18.5	Farmer Brothers	1	221-4268	NY 212-355-7311
not rated			Very high	0	19.0	IBM	3	343-3355	MD 301-657-1500
10.6			Very high	0	26.2	Microsoft	8	343-3355	MD 301-657-1500
13.6	14.7		Average	2	26.0	Elan	7	426-6730	WA 206-545-5530

Putnam Option Income Trust

See pages 84-85 for an explanation of BW Rating, Trend and other terms

DATA: MORNINGSTAR INC

MUTUAL FUNDS

FUND	RATING	OBJECTIVE	SIZE ASSETS \$ MIL.	Yr. Chg. (1990-91)	FEES		CURRENT RESULTS		
					SALES CHARGE (%)	EXPENSE RATIO (%)	1991 TOTAL RET. (%)	YIELD	RANK
SAFECO GROWTH	AVG	Growth	172.0	163	No load	0.90	62.6	0.2	1
SAFECO INCOME	↓	Equity/income	181.6	4	No load	0.93	23.3	5.1	2
SALEM VALUE INVEST. SHARES	AVG	Growth	135.6	30	4.00	1.02†	25.1	2.4	20
SALOMON BROTHERS CAPITAL	↓ ↓ ↓	Maximum growth	59.8	18	5.00	1.54	33.4	1.7	20
SALOMON BROTHERS INVESTORS	↓	Growth/income	378.6	14	5.00	0.74	29.3	2.5	5
SALOMON BROTHERS OPPORTUNITY	AVG	Growth	104.9	20	No load	1.30	30.6	1.9	13
SBSF GROWTH	↑	Growth/income	107.6	17	No load	1.15	19.0	3.3	11
SCHWAB 1000	↓	Growth/income	192.2	NM	0.50*	0.00	15.3§		
SCI TECH HOLDINGS A	↓	Technology	140.7	24	6.50	1.68	45.7	0.3	
SCOTTISH WIDOWS INTERNATIONAL		International	45.6	16	5.50	2.14†	7.6	0.9	
SCUDDER CAPITAL GROWTH	AVG	Growth	1152.2	43	No load	1.04	43.0	1.1	6
SCUDDER DEVELOPMENT	AVG	Small company	892.8	188	No load	1.29	71.9	0.0	
SCUDDER GLOBAL	AVG	International	298.8	26	No load	1.81	17.1	1.6	
SCUDDER GROWTH & INCOME	↑	Growth/income	708.4	47	No load	0.98	26.2	3.5	6
SCUDDER INTERNATIONAL	↓ ↓	International	955.9	20	No load	1.29	11.8	0.3	
SCUDDER QUALITY GROWTH		Growth	46.9	NM	No load	1.29	22.0§		
SEAFIRST ASSET ALLOCATION		Asset allocation	47.6	103	No load	0.47	18.2	4.4	
SEAFIRST BLUE CHIP		Growth	49.7	101	No load	0.47	22.5	2.2	20
SECURITY ACTION	↓ ↓ ↓	Growth	312.9	41	6.50	0.79	27.0	1.6	18
SECURITY EQUITY	AVG	Growth	328.3	33	5.75	1.08	35.1	2.4	11
SECURITY INVESTMENT	AVG	Equity/income	60.7	12	5.75	1.30	21.8	5.8	
SECURITY ULTRA	↓ ↓ ↓	Maximum growth	59.2	85	5.75	2.08	59.7	0.6	
SELECTED AMERICAN SHARES	AVG	Growth/income	705.6	76	No load	1.10†	46.3	1.3	
SELECTED SPECIAL SHARES	AVG	Small company	60.3	20	No load	1.26†	25.5	4.8	
SELIGMAN CAPITAL	↓	Maximum growth	172.7	43	4.75	1.04	55.9	0.0	
SELIGMAN COMMON STOCK	↓	Growth/income	494.9	17	4.75	0.69	30.3	3.0	4
SELIGMAN COMMUNICATIONS & INFO.	↓	Technology	50.0	40	4.75	1.77	56.5	0.0	
SELIGMAN GROWTH	AVG	Growth	598.4	25	4.75	0.73	38.8	0.6	
SELIGMAN INCOME	AVG	Income	168.6	20	4.75	0.65	30.2	7.8	
SENTINEL BALANCED	AVG	Balanced	98.7	26	6.50	0.66	23.3	5.2	
SENTINEL COMMON STOCK	AVG	Growth/income	680.3	24	6.50	0.75	30.8	3.0	3
SENTINEL GROWTH	↓	Growth	62.5	21	5.25	1.15	26.2	1.1	18
SENTRY	AVG	Growth	64.4	31	No load	0.89	29.3	2.4	16
SEQUOIA	↑ ↑ ↑	Growth	126.4	44	No load	1.00	40.0	2.4	8
SHEARSON 1990 S		Growth	54.4	40	5.00	1.72†	38.0	0.0	9
SHEARSON AGGRESSIVE GROWTH	↓	Maximum growth	163.9	102	5.00	1.17	42.3	0.0	
SHEARSON APPRECIATION	AVG	Growth	1750.1	59	5.00	0.85	26.9	2.0	18
SHEARSON APPRECIATION PORT.	AVG	Growth	848.5	18	5.00**	1.85†	23.5	2.6	21
SHEARSON DIRECTIONS VALUE	↓ ↓	Growth	228.7	-7	5.00**	1.81†	21.5	0.6	22
SHEARSON FUNDAMENTAL VALUE	↓	Growth	60.7	8	5.00	1.30	31.4	2.1	14
SHEARSON GLOBAL OPPORTUNITY	↓ ↓ ↓	International	57.5	-8	5.00	1.62	12.6	0.0	
SHEARSON GROWTH OPPORTUNITY	↓	Growth	136.1	1	5.00**	2.16†	29.6	1.0	16
SHEARSON INTERNATIONAL	↓ ↓ ↓	International	36.9	-20	5.00**	2.84†	7.8	0.0	
SHEARSON MULTIPLE OPPORTUNITY		Asset allocation	107.1	-24	5.00**	3.00†	19.2	1.6	
SHEARSON OPTION-INCOME	AVG	Option	498.9	10	5.00**	1.75†	28.9	3.0	
SHEARSON PRECIOUS METALS	↓ ↓ ↓	Precious metals	41.5	-31	5.00**	2.55†	9.7	0.2	
SHEARSON SECTOR ANALYSIS		Growth	181.2	18	5.00**	2.19†	31.5	0.8	14
SHEARSON SMALL CAP		Small company	55.8	140	5.00	1.59	57.7	0.0	
SHEARSON SPECIAL EQUITIES	↓ ↓ ↓	Small company	60.7	8	5.00**	2.38†	44.0	0.0	
SHEARSON STRATEGIC INVESTORS		Asset allocation	204.0	20	5.00**	2.12†	26.5	3.0	
SHEARSON TELECOMMS. GROWTH	↓ ↓	Utilities	34.8	5	5.00	1.20	20.9	0.8	
SHEARSON TELECOMMS. INCOME	AVG	Utilities	79.4	-16	5.00†	0.90	3.3	7.1	
SHEARSON UTILITIES		Utilities	1198.1	78	5.00**	1.85†	21.5	5.9	
SIT "NEW BEGINNING" GROWTH	↑ ↑	Small company	209.0	208	No load	1.03	64.8	0.0	
SIT "NEW BEGINNING" INCOME & GROWTH	↑	Growth/income	30.9	78	No load	1.80	32.7	2.0	2
SKYLINE SPECIAL EQUITIES		Small company	37.4	65	3.65	1.56	47.2	0.1	
SMALLCAP WORLD		International	1350.6	121	5.75†	1.50†	32.9	0.6	
SMITH BARNEY EQUITY	AVG	Growth	87.8	21	4.50	0.77†	28.8	2.1	15
SMITH BARNEY INCOME & GROWTH	AVG	Growth/income	583.7	14	4.50	0.67†	26.5	4.7	
SMITH BARNEY INTERNATIONAL EQUITY	↓	International	45.0	28	4.50	2.88†	37.8	0.5	

COREBOARD

EQUITY FUNDS

RESULTS		TREND	PORTFOLIO DATA				RISK	TELEPHONE		
ANNUAL TOTAL RET. (%)		BW 10-YEAR ANALYSIS	TURNOVER	% CASH	P/E RATIO	LARGEST HOLDING		TOLL FREE (800)	IN-STATE	
5 YEARS	10 YEARS					COMPANY	% ASSETS			
16.6	14.5		Average	2	22.7	Roberts Pharmaceutical	5	High	426-6730	WA 206-545-5530
8.0	14.9		Low	2	16.5	GTE	4	Low	426-6730	WA 206-545-5530
13.4			Very low	5	17.4	General Electric	3	Low	326-3241	NC 704-374-4343
10.4	15.7		High	4	19.0	Fund American	6	Very high	725-6666	
11.5	15.0		Low	4	18.8	Philip Morris	4	Average	725-6666	
11.3	17.0		Very low	13	15.0	Chubb	11	Average	725-6666	
12.0			Low	-1	18.8	Bristol-Myers Squibb	5	Low	422-7273	NY 212-903-1200
not rated			Very low	1	19.8	Exxon	2		526-8600	
12.3			High	23	23.2	Convex Computers	6	Average	637-3863	NJ 609-282-2800
not rated			Low	3	NA	Astra	3		523-5903	MA 617-742-9858
15.4	17.8		Average	8	19.8	Time Warner	3	High	225-2470	MA 617-439-4640
18.7	14.1		Average	7	29.2	US Surgical	3	High	225-2470	MA 617-439-4640
13.8			Low	1	19.7	Union Bank Of Switzerland	2	Low	225-2470	MA 617-439-4640
12.9			Average	3	17.6	Kmart	3	Low	225-2470	MA 617-439-4640
9.2	16.3		Average	5	NA	Telekom Malaysia	1	Average	225-2470	MA 617-439-4640
not rated			Average	2	NA	Duracell International	5		225-2470	MA 617-439-4640
			High	3	NA	Merck	3		323-9919	WA 206-358-6234
			Low	1	18.9	Merck	7		323-9919	WA 206-358-6234
8.1			High	4	22.9	IBM	3	High	888-2461	KS 913-295-3127
15.9	16.1		Average	13	19.5	FNMA	4	Average	888-2461	KS 913-295-3127
9.7	10.5		High	2	15.7	MBNA	5	Low	888-2461	KS 913-295-3127
5.5	10.1		Average	16	25.5	Zila	3	Very high	888-2461	KS 913-295-3127
15.6	18.8		Average	5	19.2	FHLMC	7	Average	426-6562	
12.6	13.1		Average	9	19.1	PH Glatfelter	5	Average	426-6562	
15.9	17.7		Low	13	24.1	Circus Circus Enterprises	8	High	221-2450	NY 212-488-0200
12.1	16.5		Average	2	20.1	Bristol-Myers Squibb	3	Average	221-2450	NY 212-488-0200
18.0			Average	4	26.5	Storage Technology	4	Very high	221-2450	NY 212-488-0200
14.7	14.8		Low	11	23.1	PepsiCo	5	High	221-2450	NY 212-488-0200
7.8	13.0		Average	5	14.3	New England Electric System	2	Very low	221-2450	NY 212-488-0200
10.6	16.1		Low	6	18.0	Philip Morris	1	Very low	282-3863	VT 802-229-3900
13.0	17.9		Very low	2	17.1	American Home Products	4	Average	282-3863	VT 802-229-3900
12.3	15.9		Low	5	23.0	Sigma-Aldrich	3	Average	282-3863	VT 802-229-3900
13.3	12.7		Very low	38	21.6	Philip Morris	7	Average	533-7827	
15.5	19.4		Low	27	19.7	FHLMC	19	Low		NY 212-245-4500
not rated			Low	0	19.0	Gensia Pharmaceuticals	6		451-2010	NY 212-464-8068
17.4			Low	9	21.9	Forest Laboratories	8	Very high	451-2010	NY 212-464-8068
14.7	17.4		Low	13	21.3	IBM	2	Low	451-2010	NY 212-464-8068
10.1			Very high	18	19.7	AT&T	4	Average	451-2010	NY 212-464-8068
8.9			Low	15	17.2	Georgia-Pacific	5	High	451-2010	NY 212-464-8068
12.0	12.4		High	6	19.7	Telefonos de Mexico	6	Average	451-2010	NY 212-464-8068
3.2			Average	4	16.1	Victor Japan	3	Average	451-2010	NY 212-464-8068
9.1			Low	4	15.7	Chubb	10	Average	451-2010	NY 212-464-8068
3.1			Average	6	NA	New Scotland Insurance	9	High	451-2010	NY 212-464-8068
			High	20	18.2	Adobe Systems	16		451-2010	NY 212-464-8068
12.1			Average	8	15.7	FNMA	4	Low	451-2010	NY 212-464-8068
0.0			High	17	33.2	Battle Mountain Gold	5	Very high	451-2010	NY 212-464-8068
			Very high	1	20.5	Brunswick	5		451-2010	NY 212-464-8068
			Very low	8	16.2	California Microwave	9		451-2010	NY 212-464-8068
5.3			Very high	5	23.4	Upjohn	4	Very high	451-2010	NY 212-464-8068
			Average	4	15.7	Philip Morris	3		451-2010	NY 212-464-8068
10.2			High	8	19.1	Century Telephone Enterprise	7	High		MA 617-573-9410
13.0			Very low	4	15.1	Bell Atlantic	24	Average		MA 617-573-9410
			Low	9	13.6	Pennsylvania Power & Light	2		451-2010	NY 212-464-8068
20.3	23.2		Low	10	29.7	Cracker Barrel Old Country	2	High	332-5580	MN 612-332-3223
13.7	16.6		Average	8	20.5	Bristol-Myers Squibb	3	Low	332-5580	MN 612-332-3223
not rated			Average	5	15.6	Giddings & Lewis	2		458-5222	IL 312-670-6035
			Low	30	25.4	Metro Mobile CTS	2		421-0180	CA 213-486-9200
12.7	14.5		Average	8	19.9	General Electric	5	Average	544-7835	NY 212-698-5349
10.1	15.2		Average	5	16.2	Exxon	5	Low	544-7835	NY 212-698-5349
11.5			Average	0	NA	Cifra	4	High	544-7835	NY 212-698-5349

See pages 84-85 for an explanation of BW Rating, Trend and other terms

DATA: MORNINGSTAR INC

MUTUAL FUN

FUND	RATING	OBJECTIVE	SIZE ASSETS \$ MIL.	% CHG 1990-91	FEES SALES CHARGE (%)	EXPENSE RATIO (%)	CURRENT RESULTS			RANK OBJ.
							TOTAL RET.	1991 YIELD		
SMITH BARNEY UTILITY		Utilities	104.9	NM	4.50	0.99*	17.2	6.5		
SOGEN INTERNATIONAL		International	313.0	50	3.75	1.30†	18.0	4.6		
SOUND SHORE	AVG	Growth	31.8	12	No load	1.41	32.2	1.9	141	
SOUTHEASTERN ASSET SMALL-CAP		Small company	60.4	26	No load	1.42	26.3	0.6		
SOUTHEASTERN ASSET VALUE		Growth	177.9	37	No load	1.31	39.2	0.4	8	
STAGECOACH ASSET ALLOCATION		Asset allocation	367.3	45	4.50	0.95†	21.8	0.0		
STAGECOACH CORPORATE STOCK	AVG	Growth/income	204.9	36	No load	0.97†	28.7	0.0	5	
STATE BOND COMMON STOCK		Growth	46.9	26	4.75	1.19†	42.8	8.1	6	
STATE BOND DIVERSIFIED	AVG	Growth/income	31.3	39	4.75	1.12†	31.3	2.7	3	
STATE STREET INVESTMENT	AVG	Growth	639.9	22	4.50	0.51	26.1	2.1	17	
STEINROE CAPITAL OPPORTUNITIES		Maximum growth	152.6	70	No load	1.18	62.8	0.8		
STEINROE PRIME EQUITIES		Growth/income	62.5	34	No load	1.00	32.4	1.7	2	
STEINROE SPECIAL		Growth	590.4	52	No load	1.04	34.0	1.8	12	
STEINROE STOCK		Growth	344.7	53	No load	0.79	46.0	1.1	5	
STEINROE TOTAL RETURN	AVG	Equity/income	156.5	22	No load	0.87	29.6	4.9		
STRATTON MONTHLY DIVIDEND	AVG	Equity/income	43.2	41	No load	1.24	35.1	6.9		
STRONG COMMON STOCK		Growth	48.5	1896	2.00	2.00	57.1	20.1	2	
STRONG DISCOVERY		Maximum growth	162.5	189	2.00	1.90	67.6	4.1		
STRONG INVESTMENT		Balanced	215.0	6	1.00	1.30	19.6	4.9		
STRONG OPPORTUNITY	AVG	Growth	159.7	21	2.00	1.70	31.7	0.9	14	
STRONG TOTAL RETURN	AVG	Growth/income	691.3	7	1.00	1.40	33.6	1.1	2	
SUNAMERICA AGGRESSIVE GROWTH		Maximum growth	32.3	36	5.75	2.12†	54.9	0.0		
SUNAMERICA BALANCED ASSETS (kk)	AVG	Balanced	92.6	-9	5.00**	1.94†	27.3	2.0		
SUNAMERICA CAPITAL APPRECIATION		Growth	106.5	-14	5.00**	2.54†	30.0	0.0	15	
SUNAMERICA GROWTH		Growth	32.7	20	5.75	1.80†	42.6	0.6	6	
TEMPLETON FOREIGN		International	1300.6	39	8.50	0.80	16.3	2.9		
TEMPLETON GLOBAL OPPORTUNITY		International	201.0	27	6.25	1.60†	33.3	1.6		
TEMPLETON GROWTH	AVG	International	3079.4	32	8.50	0.75	31.3	2.6		
TEMPLETON REAL ESTATE SECURITIES		Specialty	34.7	19	8.50	1.25	34.4	4.6		
TEMPLETON SMALLER COMPANIES GROWTH		International	912.9	33	8.50	0.97	39.5	1.8		
TEMPLETON VALUE		International	132.0	-2	8.50	1.49	33.5	0.9		
TEMPLETON WORLD		International	4243.9	16	8.50	0.72	29.6	2.7		
THOMSON GLOBAL B		International	32.4	-9	1.00*	2.60†	18.0	0.0		
THOMSON GROWTH B		Growth	669.9	95	1.00*	1.80†	41.9	0.3	7	
THOMSON OPPORTUNITY B		Maximum growth	79.7	106	1.00*	2.00†	66.1	0.0		
TOWER CAPITAL APPRECIATION		Growth/income	88.9	36	4.50	0.74†	31.2	2.0	3	
TRANSAMERICA CAPITAL APPRECIATION	AVG	Maximum growth	89.0	57	4.75	1.54†	38.0	0.0		
TRANSAMERICA GROWTH & INCOME A		Growth/income	82.6	30	4.75	1.38†	32.3	1.6	2	
TRANSAMERICA SPECIAL BLUE CHIP	AVG	Growth/income	31.0	146	6.00**	2.76†	32.0	0.0	3	
TRANSAMERICA SPECIAL EMERGING GROWTH B		Small company	65.9	263	6.00**	2.85†	58.8	0.0		
TRINITY EQUITY		Growth	106.0	112	No load	0.28†	31.2	1.8	14	
TWENTIETH CENTURY BALANCED INVESTORS		Balanced	351.2	372	No load	1.00	46.8	2.1		
TWENTIETH CENTURY GIFTTRUST INVESTORS	AVG	Small company	84.1	121	No load	1.00	84.6	0.0		
TWENTIETH CENTURY GROWTH INVESTORS		Growth	3879.1	103	No load	1.00	69.0	0.1		
TWENTIETH CENTURY HERITAGE INVESTORS		Growth	292.8	39	No load	1.01	35.9	1.2	11	
TWENTIETH CENTURY INTL. EQUITY		International	48.8	NM	No load	0.59	8.06			
TWENTIETH CENTURY SELECT INVESTORS	AVG	Growth	4634.1	45	No load	1.00	29.7	0.2	16	
TWENTIETH CENTURY ULTRA INVESTORS		Small company	2939.7	541	No load	1.00	86.5	0.0		
TWENTIETH CENTURY VISTA INVESTORS		Small company	766.9	97	No load	1.00	73.7	0.0		
U.S. BOSTON GROWTH & INCOME ORDINARY		Growth/income	44.4	30	1.00**	1.80†	28.0	1.2	6	
U.S. TREND		Growth	103.6	26	4.75	0.97	34.8	2.0	12	
UMB STOCK	AVG	Growth	65.3	45	No load	0.85	24.8	3.1	20	
UNITED ACCUMULATIVE		Growth	905.0	18	8.50	0.63	23.7	2.7	21	
UNITED CONTINENTAL INCOME		Balanced	337.7	17	8.50	0.81	25.9	3.9		
UNITED GOLD & GOVERNMENT		Precious metals	40.7	-25	8.50	1.42	1.5	2.2		
UNITED INCOME	AVG	Equity/income	2151.7	36	8.50	0.67	29.6	2.6		
UNITED INTER. ATIONAL GROWTH		International	296.9	18	8.50	1.17	19.1	1.3		
UNITED NEW CONCEPTS		Small company	141.3	40	8.50	1.27	88.3	0.2		
UNITED RETIREMENT SHARES	AVG	Growth/income	231.6	38	8.50	0.90	21.9	3.3	91	
UNITED SCIENCE & ENERGY		Technology	405.2	69	8.50	0.87	59.3	0.6		

COREBOARD

EQUITY FUNDS

C RESULTS		TREND	PORTFOLIO DATA			RISK		TELEPHONE	
NN'L TOTAL RET (%)		BW 10-YEAR ANALYSIS	TURNOVER	% CASH	P/E RATIO	LARGEST HOLDING		TOLL FREE (800)	IN-STATE
5 YEARS	10 YEARS					COMPANY	% ASSETS		
not rated			Low	4	13.1	Texas Utilities	4	544-7835	NY 212-698-5349
12.1	17.4		Low	23	20.2	Bank For Intl. Settlement	2	334-2143	NY 212-399-1141
11.0			High	18	14.3	MCI Communications	4		CT 203-629-1980
			Very low	9	20.3	Alleghany	6	445-9469	TN 901-761-2474
			Average	8	19.6	Pic 'N' Save	9	445-9469	TN 901-761-2474
11.9			Average	0	19.5	IBM	1	222-8222	
13.8			Very low	1	19.4	Exxon	3	222-8222	
19.1	15.4		Very low	9	21.3	Bristol-Myers Squibb	8	333-3952	MN 612-835-0097
14.5	16.4		Very low	11	20.3	Kimberly-Clark	5	333-3952	MN 612-835-0097
14.8	15.0		Very low	3	21.3	Bristol-Myers Squibb	6	882-0052	
10.7	10.9		Average	22	26.1	Mattel	3	338-2550	IL 312-368-7800
			Average	10	22.4	Home Depot	3	338-2550	IL 312-368-7800
16.9	19.3		Average	10	20.5	Harley-Davidson	4	338-2550	IL 312-368-7800
16.2	15.6		Low	8	23.5	Home Depot	4	338-2550	IL 312-368-7800
10.7	13.8		Average	10	19.1	Bristol-Myers Squibb	2	338-2550	IL 312-368-7800
8.5	14.4		Average	3	15.3	Meditrust	7	634-5726	PA 215-941-0255
not rated			Very high	14	17.3	Immune Response	3	368-3863	WI 414-359-1400
			Very high	14	22.4	Pfizer	5	368-3863	WI 414-359-1400
8.3	16.1		Very high	11	19.9	Avon Products	4	368-3863	WI 414-359-1400
12.5			Very high	19	17.0	Glaxo Holdings	3	368-3863	WI 414-359-1400
9.3	17.1		Very high	5	23.9	Telefonos de Mexico	6	368-3863	WI 414-359-1400
			Low	23	18.3	Heilig-Meyers	11	858-8850	NY 212-551-5125
10.0			Average	1	23.3	FNMA	6	858-8850	NY 212-551-5125
5.6			Average	9	18.9	Loews	10	858-8850	NY 212-551-5125
			Average	15	22.1	Consolidated Papers	4	858-8850	NY 212-551-5125
17.9			Low	14	NA	National Australia Bank	2	237-0738	FL 813-823-8712
not rated			Low	5	17.8	Cifra	4	237-0738	FL 813-823-8712
13.3	15.8		Low	8	17.7	National Australia Bank	2	237-0738	FL 813-823-8712
not rated			Low	10	20.5	Weingarten Realty	4	237-0738	FL 813-823-8712
9.6	16.6		Low	11	17.6	Telefonos de Mexico	3	237-0738	FL 813-823-8712
			Low	10	20.0	Ascom	5	237-0738	FL 813-823-8712
10.6	15.6		Low	4	16.4	FNMA	2	237-0738	FL 813-823-8712
8.5			High	7	24.6	Wal-Mart Stores	2	628-1237	CT 203-352-4900
18.1			High	12	28.0	Novell	5	628-1237	CT 203-352-4900
19.8			High	4	27.3	Intl. Game Technology	6	628-1237	CT 203-352-4900
			High	15	21.5	Pacific Gas & Electric	3	999-0124	LA 504-587-2708
18.1			High	4	21.9	Deprenyl Research	4	343-6840	TX 713-751-2400
13.1	14.6		Average	0	22.1	Merck	2	343-6840	TX 713-751-2400
13.5			Average	15	21.8	Baxter International	4	343-6840	TX 713-751-2400
			Average	11	23.1	Cirrus Logic	2	343-6840	TX 713-751-2400
not rated			Average	2	21.3	Philip Morris	3	456-7780	NY 716-262-4080
			High	4	26.8	Amgen	5	345-2021	MO 816-531-5575
22.7			High	1	33.1	Healthsource	4	345-2021	MO 816-531-5575
22.0	17.9		Average	6	26.8	Amgen	9	345-2021	MO 816-531-5575
			High	2	19.6	Pfizer	5	345-2021	MO 816-531-5575
not rated			Average	3	NA	Nutricia Gemeenschaplijk	3	345-2021	MO 816-531-5575
15.0	18.7		Average	1	21.1	Philip Morris	5	345-2021	MO 816-531-5575
27.5	20.1		Low	4	33.8	Amgen	5	345-2021	MO 816-531-5575
19.3			Average	3	29.6	Borland International	5	345-2021	MO 816-531-5575
15.6			High	4	15.7	Merck	3	872-7866	MA 617-259-1144
15.6	14.2		Low	14	21.8	Philip Morris	6	262-6631	TX 713-750-8000
11.7			Very low	23	19.3	Bristol-Myers Squibb	1	422-2766	MO 816-471-5200
11.7	16.3		Very high	24	18.4	Du Pont	4	366-5465	KS 913-236-2000
8.6	16.1		Very high	17	19.0	JC Penney	3	366-5465	KS 913-236-2000
3.4			Average	12	NA	Driefontein Consolid. Mines	6	366-5465	KS 913-236-2000
15.0	19.7		Low	4	18.4	ITT	2	366-5465	KS 913-236-2000
8.4	15.4		High	7	NA	Telefonos de Mexico	4	366-5465	KS 913-236-2000
15.8			High	22	35.1	Saint Jude Medical	4	366-5465	KS 913-236-2000
11.7	14.5		Average	8	22.8	Consolidated Natural Gas	3	366-5465	KS 913-236-2000
19.1	17.7		Average	13	29.7	Amgen	4	366-5465	KS 913-236-2000

See pages 84-85 for an explanation of BW Rating, Trend and other terms

DATA: MORNINGSTAR INC.

MUTUAL FUN

FUND	RATING	OBJECTIVE	SIZE		FEES		CURRENT RESULTS			RANK
			ASSETS \$ MIL	% CHG 1990-91	SALES CHARGE (%)	EXPENSE RATIO (%)	1991 TOTAL RET (%)	YIELD		
UNITED SERVICES WORLD GOLD		Precious metals	57.0	-17	No load	2.22	-3.4	0.0		
UNITED SERVICES GOLD SHARES		Precious metals	208.4	-21	No load	1.54	-15.6	2.9	1	
UNITED VANGUARD		Growth	913.6	25	8.50	0.97	27.4	1.8	180	
USAA INVESTMENT BALANCED		Balanced	61.5	54	No load	1.00	14.7	4.3	4	
USAA INVESTMENT CORNERSTONE	AVG	Balanced	603.7	9	No load	1.18	16.2	3.1	4	
USAA INVESTMENT GOLD		Precious metals	118.7	-16	No load	1.45	-4.4	1.2	1	
USAA INVESTMENT INTERNATIONAL		International	31.4	31	No load	1.82	13.4	0.8	4	
USAA MUTUAL AGGRESSIVE GROWTH		Maximum growth	271.4	101	No load	0.87	71.7	0.0		
USAA MUTUAL GROWTH	AVG	Growth	365.8	50	No load	1.11	27.8	2.4	176	
USAA MUTUAL INCOME		Income	1004.3	108	No load	0.47	19.4	7.6	1	
USAA MUTUAL INCOME STOCK		Equity-income	243.4	165	No load	0.83	27.3	5.1	1	
USF&G AXE-HOUGHTON B	AVG	Balanced	174.0	7	5.75	1.18†	22.1	5.1	2	
USF&G AXE-HOUGHTON GROWTH		Growth	62.1	-10	5.75	1.52†	40.7	0.0	81	
USF&G CHANCELLOR GROWTH & INCOME		Growth/income	33.1	1555	5.75	1.42†	37.9	1.7	12	
USF&G OVER-THE-COUNTER SECURITIES		Small company	268.1	25	5.75	1.48†	38.8	0.5	5	
UST MASTER EQUITY		Growth	61.8	147	4.50	1.23	34.5	1.3	124	
UST MASTER INTERNATIONAL		International	45.7	66	4.50	1.61	5.9	1.2	7	
VALUE LINE		Growth	321.5	59	No load	0.67	52.9	3.7	32	
VALUE LINE INCOME		Income	172.2	22	No load	0.79	28.5	3.9		
VALUE LINE LEVERAGED GROWTH INV.	AVG	Maximum growth	346.4	47	No load	0.94	46.4	0.8	2	
VALUE LINE SPECIAL SITUATIONS		Maximum growth	129.1	24	No load	1.11	36.6	0.3	2	
VAN ECK GOLD/RESOURCES		Precious metals	136.3	-22	6.75	1.44†	-4.1	0.3	1	
VAN ECK INTERNATIONAL INVESTORS		Precious metals	568.9	-7	8.50	0.97	2.6	1.5		
VAN ECK WORLD TRENDS		International	47.9	2	5.75	1.71†	12.5	0.5	5	
VANGUARD ASSET ALLOCATION		Asset allocation	341.2	91	No load	0.51	25.6	4.3		
VANGUARD EQUITY-INCOME		Equity-income	569.8	43	No load	0.53	25.4	5.2	2	
VANGUARD EXPLORER		Small company	429.7	81	No load	0.56	55.9	0.7	2	
VANGUARD INDEX 500	AVG	Growth/income	4345.0	100	No load	0.19	30.2	2.9	49	
VANGUARD INDEX EXTENDED MARKET		Small company	372.4	108	No load	0.21	41.8	1.6	4	
VANGUARD INTL. EQUITY INDEX EUROPEAN		International	160.8	68	No load	0.33	12.4	2.6	5	
VANGUARD INTL. EQUITY INDEX PACIFIC		International	84.5	173	No load	0.32	10.8	0.5	6	
VANGUARD QUANTITATIVE	AVG	Growth/income	334.8	58	No load	0.48	30.3	2.8	46	
VANGUARD SMALL CAPITALIZATION STOCK		Small company	131.1	184	No load	0.21	45.3	1.4	4	
VANGUARD SPECIALIZED ENERGY	AVG	Natural resources	116.3	-3	1.00*	0.35	0.3	3.1		
VANGUARD SPEC. GOLD & PRECIOUS METALS		Precious metals	170.4	32	1.00*	0.42	4.4	2.7		
VANGUARD SPECIALIZED HEALTH CARE		Health care	547.6	235	1.00*	0.36	46.3	1.4		
VANGUARD STAR		Balanced	1574.0	52	No load	0.00	24.2	4.9	1	
VANGUARD WORLD INTL. GROWTH		International	869.4	18	No load	0.68	4.7	1.8	7	
VANGUARD WORLD U. S. GROWTH		Growth	978.1	175	No load	0.74	46.8	1.3	51	
VANGUARD/MORGAN GROWTH	AVG	Growth	956.8	37	No load	0.55	29.3	2.2	164	
VISTA GROWTH & INCOME		Growth/income	45.4	141	4.50	1.25†	59.1	0.9		
WASHINGTON MUTUAL INVESTORS	AVG	Growth/income	8215.4	47	5.75	0.77†	23.5	3.5	93	
WAYNE HUMMER GROWTH		Growth	50.3	91	No load	1.22	28.9	1.9	169	
WEITZ VALUE		Growth	32.3	38	No load	1.49	27.6	2.3	178	
WELLESLEY INCOME		Income	1934.1	89	No load	0.45	21.5	7.0		
WELLINGTON	AVG	Balanced	3818.4	56	No load	0.36	23.6	5.0	7	
WESTCORE BASIC VALUE		Growth/income	110.9	18	4.50	0.90	31.1	3.1	34	
WESTCORE MIDCO GROWTH		Growth	178.2	128	4.50	0.78	67.0	2.0	9	
WESTCORE MODERN VALUE EQUITY		Growth/income	32.2	57	4.50	0.84	34.5	2.6	2	
WESTWOOD EQUITY (II)		Asset allocation	47.9	7	4.00	1.26	21.2	3.4		
WILLIAM BLAIR GROWTH SHARES (mm)		Growth	91.4	45	No load	0.92	44.4	2.7	58	
WINDSOR		Growth/income	7821.9	20	No load†	0.37	28.6	4.5	6	
WINDSOR II	AVG	Growth/income	3626.6	55	No load	0.52	28.7	4.0	57	
WINTHROP FOCUS GROWTH		Growth	52.7	15	4.00**	1.34†	28.1	1.3	173	
WPG GROWTH		Small company	164.4	39	No load	0.95	56.8	0.2		
WPG GROWTH & INCOME		Growth/income	42.1	41	No load	1.50	40.7	0.9	8	
WPG TUDOR		Growth	264.2	63	No load	1.07	45.8	1.1	56	
YAMAICHI GLOBAL		International	62.0	-5	4.75	1.72†	14.2	0.3		
ZWEIG PRIORITY SELECTION		Growth	59.7	52	5.50	1.77†	34.9	0.9	119	
ZWEIG STRATEGY		Growth	367.3	23	5.50	1.67†	23.4	2.0	216	

[illegible]

FUND SCOREBOARD

EQUITY FUNDS

RESULTS		TREND	PORTFOLIO DATA			RISK	TELEPHONE	
1 YEAR	TOTAL RET. (%)	BW 10-YEAR ANALYSIS	TURNOVER	% CASH	P/E RATIO	LARGEST HOLDING COMPANY % ASSETS	TOLL FREE (800)	IN-STATE
-2.9			Average	3	NA	American Barrick Resources 14	873-8637	TX 512-523-2453
-5.0	-0.4		Average	0	NA	Driefontein Consolid. Mines 8	873-8637	TX 512-523-2453
12.4	16.0		High	21	22.6	Triton Energy 6	366-5465	KS 913-236-2000
Not rated			Average	25	18.5	IBM 2	531-8181	TX 512-498-6505
8.7			Low	13	20.5	Rouse 3	531-8181	TX 512-498-6505
-4.5			Very low	14	36.5	American Barrick Resources 7	531-8181	TX 512-498-6505
			Average	12	NA	Tesco America 3	531-8181	TX 512-498-6505
14.8	12.7		Average	9	28.0	Carter-Wallace 5	531-8181	TX 512-498-6505
12.8	12.0		Low	3	19.3	American Home Products 3	531-8181	TX 512-498-6505
11.2	14.1		Very low	-5	13.9	Texas Utilities 2	531-8181	TX 512-498-6505
			Low	5	16.5	Commonwealth Edison 5	531-8181	TX 512-498-6505
10.7	15.0		Very high	8	18.3	Johnson & Johnson 4	323-8734	PA 215-643-2510
12.8	13.4		Very high	20	26.2	Syntex 4	323-8734	PA 215-643-2510
Not rated			Average	2	NA	FNMA 4	323-8734	PA 215-643-2510
7.9	12.1		Low	5	19.6	Woodward Governor 2	323-8734	PA 215-643-2510
11.2			Low	6	21.0	ConAgra 4	233-1136	MA 617-451-1912
			Average	9	NA	Akzo 1	233-1136	MA 617-451-1912
8.1	14.6		Average	2	21.7	Home Depot 3	223-0818	NY 212-687-3965
12.0	13.7		Average	4	17.7	Merck 2	223-0818	NY 212-687-3965
15.8	15.2		Average	2	21.6	Merck 2	223-0818	NY 212-687-3965
8.3	7.6		Low	9	27.3	Wheelabrator Group 3	223-0818	NY 212-687-3965
-0.6			Very low	2	36.8	American Barrick Resources 10	221-2220	NY 212-687-5201
3.5	7.1		Very low	-1	NA	American Barrick Resources 5	221-2220	NY 212-687-5201
6.1			Low	11	21.1	Royal Dutch Petroleum 4	221-2220	NY 212-687-5201
			Average	3	19.3	Exxon 1	662-7447	PA 215-669-1000
			Very low	6	16.4	IBM 4	662-7447	PA 215-669-1000
12.3	10.6		Average	10	22.7	Fiserv 2	662-7447	PA 215-669-1000
15.0	17.1		Low	0	19.5	Exxon 3	662-7447	PA 215-669-1000
			Very low	3	20.7	Microsoft 1	662-7447	PA 215-669-1000
Not rated			Low	0	15.1	British Telecommunications 3	662-7447	PA 215-669-1000
			Low	1	NA	Fuji Bank 3	662-7447	PA 215-669-1000
15.3			Average	4	16.6	Philip Morris 3	662-7447	PA 215-669-1000
8.8	9.3		Low	1	18.7	Barr Laboratories 1	662-7447	PA 215-669-1000
12.8			Low	6	16.0	Kerr-McGee 5	662-7447	PA 215-669-1000
15.4			Very low	15	NA	De Beers Consolid. Mines 5	662-7447	PA 215-669-1000
13.8			Low	11	23.1	Ciba-Geigy 5	662-7447	PA 215-669-1000
11.4			Very low	12	16.8	Windsor II Fund 40	662-7447	PA 215-669-1000
7.6	18.1		Average	2	NA	Hitachi 2	662-7447	PA 215-669-1000
16.6	16.9		Average	7	22.3	FHLMC 6	662-7447	PA 215-669-1000
15.0	15.8		Average	8	18.5	Pfizer 2	662-7447	PA 215-669-1000
			High	10	20.2	Service Merchandise 2	348-4782	
12.8	18.5		Very low	5	17.3	IBM 4	421-0180	DC 202-842-5665
14.4			Very low	25	20.5	Illinois Tool Works 4	621-4477	IL 312-431-1700
11.3			Low	4	NA	FHLMC 6		NE 402-391-1980
11.2	15.9		Low	4	14.2	Southwestern Bell 2	662-7447	PA 215-669-1000
11.7	16.2		Low	2	17.1	Bristol-Myers Squibb 2	662-7447	PA 215-669-1000
			Average	1	16.6	Seagram 3	666-0367	CO 303-623-2577
20.0			Average	0	25.6	US Surgical 4	666-0367	CO 303-623-2577
			High	2	17.4	Wells Fargo 2	666-0367	CO 303-623-2577
			High	3	18.1	General Electric 4	253-4510	
16.4	14.9		Low	10	25.7	Automatic Data Processing 4	635-2886	IL 312-346-4830
10.2	16.8		Low	19	17.9	USX-Marathon Group 5	662-7447	PA 215-669-1000
12.6			Low	9	15.8	American Home Products 3	662-7447	PA 215-669-1000
9.6	10.1		Low	1	21.1	FHLMC 8	225-8011	NY 212-504-4000
13.0			Average	7	26.6	Storage Technology 3	223-3332	NY 212-908-9582
13.5	15.3		Average	7	20.3	Storage Technology 4	223-3332	NY 212-908-9582
15.0	17.8		Average	3	26.7	Merrill Lynch 2	223-3332	NY 212-908-9582
			High	2	18.3	General Electric 2	257-0228	NY 212-466-6805
			High	17	24.3	Chiquita Brands Intl. 2	444-2706	NY 212-635-9800
Not rated			High	27	14.2	Central & Southwest 2	444-2706	NY 212-635-9800

See pages 84-85 for an explanation of BW Rating, Trend and other terms

DATA: MORNINGSTAR INC.

WESTINGHOUSE GETS A BIG DOSE OF REALITY

Even as it cleans up its finance arm, troubles loom elsewhere

Every so often, Westinghouse Electric Corp. finds a way to embarrass itself. Back in the 1960s, it embarked on a misguided diversification into everything from watchmaking to low-income housing. In the 1970s, it lost a bundle on uranium contracts, then pleaded guilty to bribing a former Egyptian prime minister to win a power-plant contract. By comparison, the 1980s were a rousing success—a fact not lost on Paul E. Lego. At his first session with Wall Street analysts as chairman, in October, 1990, Lego was downright ebullient as he reviewed the previous decade. Westinghouse had exceeded all its goals, Lego crowed, with double-digit earnings growth and average return on equity of more than 18%. “In fact, we did more than we said we would do,” he said.

Did they ever. Even as he addressed the analysts, Lego was sitting on a powder keg of bad loans for real estate and leveraged buyouts in his financial-services unit, Westinghouse Credit Corp.

Management had leaned heavily on Westinghouse Credit for growth during the 1980s, but the explosion hit within months of Lego's taking office, rocking the company with two write-offs totaling \$2.7 billion. Last year, Westinghouse

posted a \$1 billion loss (chart, page 11).

Now, the company is holding a sale to liquidate much of Westinghouse Credit's \$8.6 billion in assets. It is selling a handful of industrial businesses. On Jan. 29, the board sliced the quarterly dividend, to 18¢ from 35¢, to \$240 million—a move Lego vowed in October would be a last resort. Westinghouse's battered shares have climbed five points this year, to around 18, after falling 66% since 1990.

LONG HAUL. The asset sales probably won't spark a quick turnaround, though. Ongoing weakness at Westinghouse Credit will continue to sap cash. “It will take three to five years or longer to get out of this mess,” says a former Westinghouse senior executive. And after a decade-long makeover, the \$13 billion parent company is saddled with a mix of mature industrial businesses that probably won't grow as fast as management would like. Lego doesn't dispute that prosperity is a long way off. “It's going



**AT WESTINGHOUSE,
REAL ESTATE WOES—
AND MORE**

DEFENSE SYSTEMS Defense contracts account for 70% of sales, so defense budget ax will cut deep. Long haul to make up lost ground in commercial electronics
Est. 1991 revenues: \$3.2 billion
Est. 1991 operating profit: \$260 million

INDUSTRIALS Recession squeezes cyclical, slow-growth electrical component businesses. One or more units may be for sale
Est. 1991 revenues: \$3.1 billion
Est. 1991 operating profit: \$165 million

POWER SYSTEMS Electric utilities' need for added capacity has been a boon for building business, but construction slow-down hurt margins, and market revenue is going away at least
Est. 1991 revenues: \$2.6 billion
Est. 1991 operating profit: \$120 million

ENVIRONMENTAL SYSTEMS Incineration and land reclamation businesses may not be slowing. Public opposition to incinerators is starting to foil projects.
Est. 1991 revenues: \$1.25 billion
Est. 1991 operating profit: \$70 million

FINANCIAL SERVICES With write-offs at second time around, credit and real estate portfolios. Formerly largest & volatile, much of \$8.6 billion to be sold
Est. 1991 revenues: \$968 million
Est. 1991 operating loss: \$1.1 billion

SOURCE: WESTINGHOUSE SECURITIES

CHAIRMAN LEGO AND AN AILING PROPERTY, A HOLIDAY INN IN KANSAS CITY, MO.

be the end of 1993 or the end of 1994" Core Westinghouse profits are growing by 10% a year again, he says. Just as the crisis at Westinghouse is lifting the bottom line, it is raising serious questions about Lego's leadership. Upbeat forecasts have fostered disquiet on Wall Street. As late as last spring, he was predicting only a slight earnings decline for the year. "His credibility is weakened" by such rosy predictions, says Judy A. Meehan, an analyst at Parker/Hunter Inc. Lego argues that his predictions have been as sound as could be expected.

Within the company, many view the 57-year-old chairman as distant. Rather than rallying the troops, Westinghouse executives say, he confers in his office with two longtime friends, Eileen P. and Anthony A. Massaro Jr., head of corporate communications and environmental systems, respectively. He declines to see any senior executives, current and former managers say. "Lego has circled his wagons," says one retired executive. The chairman insists he gets plenty of advice, much of it from investment bankers at Lazard Frères & Co. and Carson Lehman Brothers Inc. "You don't turn to 15 or 20 people [within the company] to look at a problem that is essentially oriented at the financial-services operation," Lego says. "You look for specific advice from people who have specific knowledge in this area." In an effort to lift morale, though, he plans a whirlwind visit to all 16 Westinghouse operating units later this month.

SHUFFLING ASSETS. To many, Westinghouse's problems are a classic example of pushing for short-term gains at long-term expense. Worried about a hostile takeover in the early 1980s, then-CEO Douglas D. Danforth started an overhaul of Westinghouse's far-flung 135 divisions. He also bought back 20% of the company's stock and jacked up dividends. But in the rush to woo investors with ever-bigger returns, Danforth and his successor, 41-year veteran John C. Mearns, seem to have promised too much. Quality and productivity gains would widen margins only so far in such businesses as power plants, garbage incinerators, military guidance systems, and refrigeration trucks.

To achieve its ambitious growth targets in the 1980s, management relied heavily on cash gathered by shuffling assets. From 1985 to 1990, sales of more than 70 businesses—from elevator maker to a 7-Up bottler—generated \$3.5 billion. A big chunk was booked as reserves and "other" income, contributing an average of more than 30% of total annual operating profits. Meanwhile, research and development and capital spending slid 30% from the peak of \$1 billion in 1982. Says First Boston Corp.

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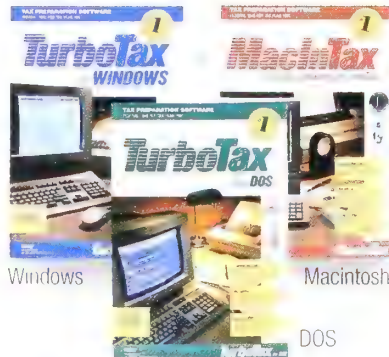
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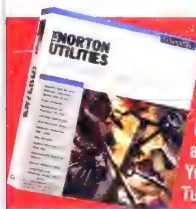
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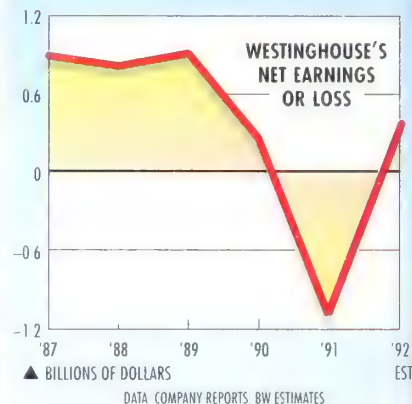
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analyst Martin A. Sankey: "For most of the 1980s, Westinghouse strategy was running a slow liquidation."

Things were anything but slow over at Westinghouse Credit, though. In 1980 the parent decided to remake its financial-services unit into a reliable cash producer to offset cycles in Westinghouse's other operations. It pulled financial services out of low-margin consumer lending and focused on risky, high-return real estate and investment banking. Soon after becoming chairman in early 1988, Marous directed the credit arm to report directly to him. He leaned hard on its new chairman, William A. Powe, to keep pumping out its 20% annual revenue growth, say current and former Westinghouse executives. They believe Marous was overeager to put his stamp on the company in the 2½ years before his mandatory retirement. He denies the

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suggestion and says he was simply working toward long-established goals.

Supersalesman Powe was the man for the job. As head of real estate from 1980 to 1988, he had built the portfolio from \$600 million to a prodigious \$2.6 billion, much of it by financing hotels and apartments. When the building boom fizzled, Powe tried leveraged buyouts, pouring billions into takeovers such as the now bankrupt Hills Department Stores Inc. His moves had the desired effect: Crecor Corp. became a cash cow, producing more than 16% of the parent's profits.

OPTIMISTS. But big trouble was brewing. Lego—then Westinghouse's president and a Westinghouse Credit board member—shared Powe's overly optimistic view that Credit could nurse the sick portfolio without taking a big hit. Others in the organization saw it differently. "It was so bad that two years ago, even guys in the mail room were asking who there would be a write-off," jokes a former Westinghouse financial-services executive. Should Lego have known how severe the problems were? "The oper-



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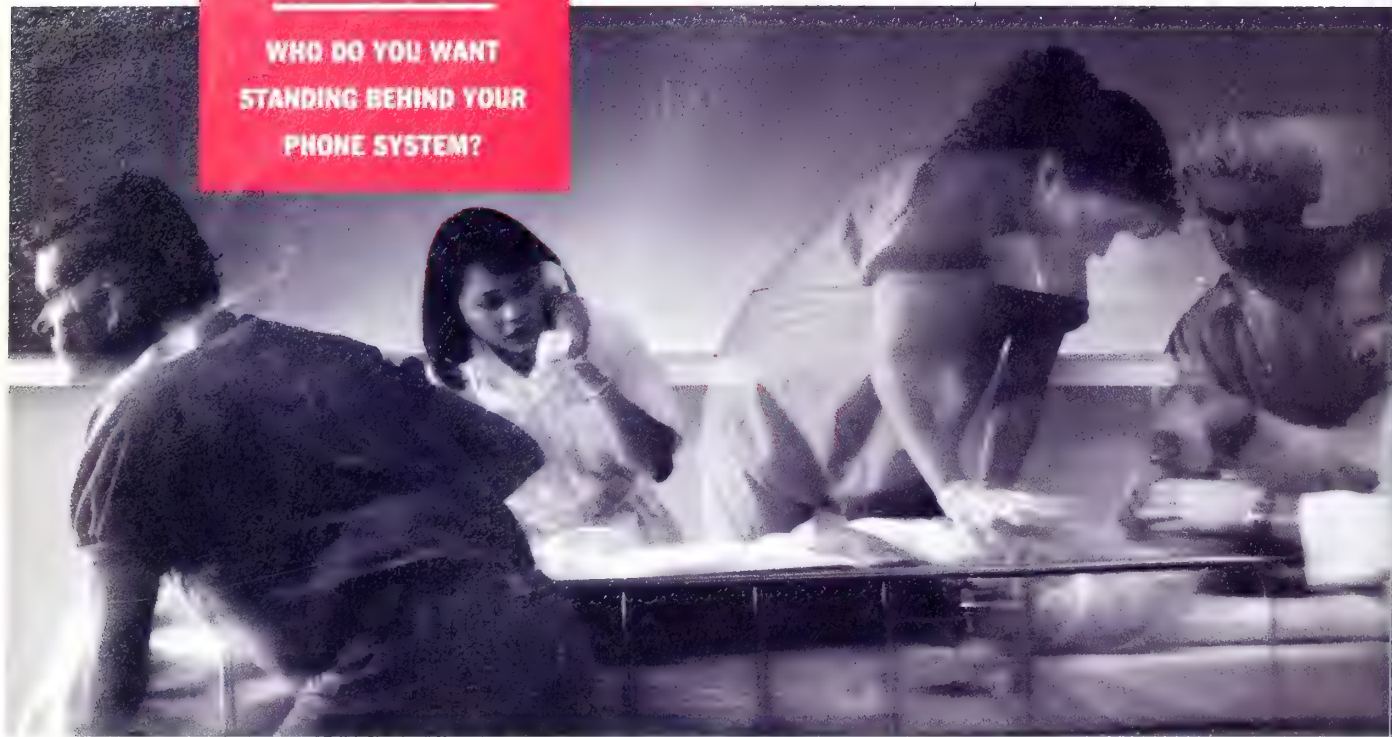
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ns didn't report to me," he says. When Lego finally brought in Lazard ères in late 1990, management took a nservative course. On Feb. 27, 1991, er the board had awarded senior man- ment its 1990 bonuses based on what ked like record earnings, Westing- use announced a \$975 million write- , about half from real estate. The di- tors, who declined to comment, kept e bonuses intact. Then in October, h its credit ratings under pressure d the economy sinking, Westinghouse ealed the shocking second charge: 7 billion. Powe, no longer at the com- ny, couldn't be reached for comment. More write-offs could lie ahead. The nancial-services debacle and the reces- n are proving that Westinghouse's inesses are not the countercyclical k management wanted. Even without e financial-services unit's \$1 billion

'It was so bad that even guys in the mailroom were asking when there would be a write-off'

s, operating earnings for the compa- s other business groups fell by one- rd last year. Analysts forecast a ght rebound this year if the economy ks up, but "Westinghouse doesn't ve the horses to get through a reces- n" with 10% earnings gains, says eholas P. Heymann, an analyst at unty NatWest Securities.

WNSIZING. At least Lego promises t to pump up earnings with asset es anymore. "That's a deliberate str- ic change," he says, adding that he s no interest in "onetime events that ate no future cash stream." But he l try to buy some breathing room by htening Credit's portfolio—where he a. Some of the real estate assets may t be easy to unload. In late 1990, Wes- ghhouse sold its Holiday Inn Crowne aza in Kansas City, Mo., only to have buyers default and toss the property ck to Westinghouse this year.

Even if he could, Lego doesn't neces- ily want to get rid of the whole Cred- unit. "We'll continue to downsize fi- cial services until it can sustain its n debt," he says. "When that hap- ns, we will make a decision to down- e further, operate the business, or t it." After what it has done to the npany's bottom line, many Westing- use managers would probably vote for latter.

By Michael Schroeder in Pittsburgh

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GOO VIBRATIONS: AMERMAN THINKS GAK, MATTEL'S SPLATTERY STUFF, WILL BE A HIT WITH THE BOYS

MATTEL: LOOKING FOR A FEW GOOD BOY TOYS

Barbie is still belle of the ball, but she can't fuel growth by herself

Over the past 33 years, the 5-ounce, 11½-inch fashion plate known as Barbie has been the perfect daughter for parent Mattel Inc. Decked out in the latest styles, the button-nosed best-seller has carried Mattel through thick and thin—mainly with a mute smile on her face. But this month, she'll speak again for the first time since 1969, when a pull-string Talking Barbie went off the market. A sampling of her conversation: "Hi, wanna get a pizza?" and "You look really cool!"

Mattel has big hopes for Barbie's small talk. The El Segundo (Calif.) toy company gets roughly half of its \$1.6 billion in annual sales from Barbie, boyfriend Ken, and their plastic playmates. If Barbie fans like her new Valley Girl-on-a-chip accent, sales for the world's oldest teenager should approach \$1 billion by 1994, says John Taylor, an analyst with L. H. Alton & Co.

But even as they celebrate, Mattel executives are jumpy. When the toy industry gathers in New York on Feb. 10 for its annual American International Toy Fair, Barbie's first words will be accompanied by an even more ambitious push

into a market where Mattel traditionally has been weak: toys for boys. David M. Mauer, brought in just over a year ago as co-president of Mattel USA, made his mark at Kenner Parker Toys by developing a winning series of action toys based on the *Ghostbusters* and *Star Wars* movies. Since joining Mattel, Mauer has cooked up a host of new products, including Bruno the Bad Dog, a toy truck that transforms into a ferocious barking canine. "My mission," Mauer declares, "is testosterone."

POWER FAILURE. Mattel knows it can't count forever on Barbie's magic charm to keep sales growing at a 17% annual pace. Last year, it tried to add to its toy chest with a bid for Tonka Corp. but lost out to archrival Hasbro Inc., the nation's largest toymaker. Now, Mattel wants to broaden its product line from within. It also plans to market

other new lines acquired in a flurry of small acquisitions and it has set up licensing agreements with Walt Disney Co. and the Nickelodeon cable TV channel.

Still, two previous attempts by Mattel to broaden beyond Barbie ended badly. In 1983, falloff in video game sales forced it to take a \$421 million charge, and the company flirted with bankruptcy. Four years later, it lost \$113 million when kids suddenly grew tired of its Masters of the Universe and Captain Power toys.

The man who saved the day was John W. Amerman, an 11-year Mattel veteran who became chairman in 1987. Thanks to a careful nurturing of the Barbie line and expansion overseas, Mattel's earnings have grown at a 41% average annual clip since 1988. Overseas sales now comprise 50% of Mattel's total—up from 20% in 1980.

And analysts figure that Mattel's 1990 earnings were up about 30%, to \$11 million (chart), despite the worst Christmas for retailers in years.

INTO LEATHER. Sales of Barbie alone have almost doubled in four years. Although the doll has been a winner since her debut in 1959, Amerman deduced a few years ago that Barbie was undermarketed. He and Jill E. Barad, co-president and head of the girls' toys division, started pushing for growth in Europe and Latin America by boosting Mattel's ad spending and expanding its sales force. They also broadened Barbie's appeal by dressing her in everything from business suits to leather miniskirts. "Barbie has turned into the No. 1 franchise in the toy business today," says David S. Leibowitz, an analyst with American Securities Corp.

Even so, Amerman felt it was time to make a stronger bid for boys. Besides Bruno, Mattel

will offer boys action figures based on the film *Hook* and TV's *American Gladiator*, as well as brightly colored baseball bat gloves, and balls. There is Gak, a gooey substance that stretches, oozes, and splatters on the wall.

The boys' products are hardly the only new toy Mattel has up its sleeve. The toymaker's large doll business, which has



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grown from \$40 million in sales to \$22 million since 1987, will introduce La Miss Magic Jewels at the Toy Fair. He magic wand produces make-believ gems. And Nickelodeon has contracte with Mattel to develop a new line o paint sets and other products unrelate to any Nickelodeon show.

ROLLER BABE. In what may be its farest-reaching deal ever, Mattel ha agreed to pay Disney for the right t place Mattel's name on three rides a Disney theme parks. Stores stuffed wit Mattel products will be set up near eac attraction. Mattel, which already make Disney educational toys, also won th exclusive rights to sell dolls and stuffie characters such as Cinderella and othe Disney movie favorites. The compan hopes to grab the exclusive rights to se stuffed Mickeys and other top Disne characters as those licenses, now held b Hasbro, start expiring in 1993. "By th year 2000, we should see volume for Di ney comparable to what we have toda for Barbie," predicts Amerman.

Still, Amerman wants more variety. Last June, he lured board-game gur Larry Bernstein, the former marketin head at Parker Bros., to whip up seve new games for the Toy Fair. Amo them: Dark World, a game set in a haunted castle where action figure move through trap doors and revolvin bookcases. A deal in January for International Games Inc. brings in an additional \$30 million in revenues from su card and board games as Uno and Skl Bo. But the board-game business is not roously chaney: Mattel's last big attempt failed in 1979, with such forgettabl games as Rocket Hockey and Up f Grabs. "People come and go in th board-game industry," sniffs John O'Neill, chief financial officer of Hasbro.

This time around, a product failur would be less likely to ravage Matt than in previous expansions. Its n profit margins have more than double to over 7% since 1988, slightly bett than the industry average of 6%. And man has also slashed long-term debt more than half, to \$175 million, wh building a cash hoard of \$150 million.

Mattel's best hedge against trouble, of course, is to keep Barbie fans happy. Coupled with the talking doll is a ne version that zips around on rollerblade Toys 'R' Us Inc., the nation's largest t retailer, is certainly doing what it can move Mattel products: It's doubling t amount of shelf space per store for Barbie and friends, says Vice-Chairman Michael Goldstein. If boys flock to Matte new offerings as well, then Barbie w really have something to talk about.

*By Eric Sauter in El Segundo, Calif.
and Gary McWilliams in Boston*

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RESCUING SALOMON WAS ONE THING, BUT RUNNING IT...

Critics blame Warren Buffett for a series of mistakes that are hurting the firm's performance

No question about it, Warren E. Buffett saved Salomon. When the Feds collared Salomon Inc. last August for submitting false Treasury auction bids, Buffett, the firm's largest shareholder with \$700 million in stock, promptly replaced John H. Gutfreund as chief executive and chairman. He held candid press conferences, wooed congressmen with folksy mea culpas, threw open the firm's doors to federal investigators, and, more than anything, restored the confidence of regulators, shareholders, and employees.

But rescuing Salomon is a cakewalk compared with actually running it. Six months later, the reign of the Wizard of Omaha seems anything but magical. Salomon's underwriting business has plummeted (chart). From January through July, 1991, the firm had a 10.1% share of the market. Since then, its share has dropped to 6.6%. While major competitors racked up big gains during Wall Street's hot fourth quarter, Salomon is expected to report a \$30 million loss. Desultory morale has helped precipitate an exodus of high-level employees. "Chapter one is over, and chapter two is real tough," says Alan Johnson, an executive recruiter with GKR International.

RISK-AVERSE? Underlying these events is a strategy that the firm's critics, mainly current and recently departed executives who declined to be quoted by name, see as both confusing and ill-ad-

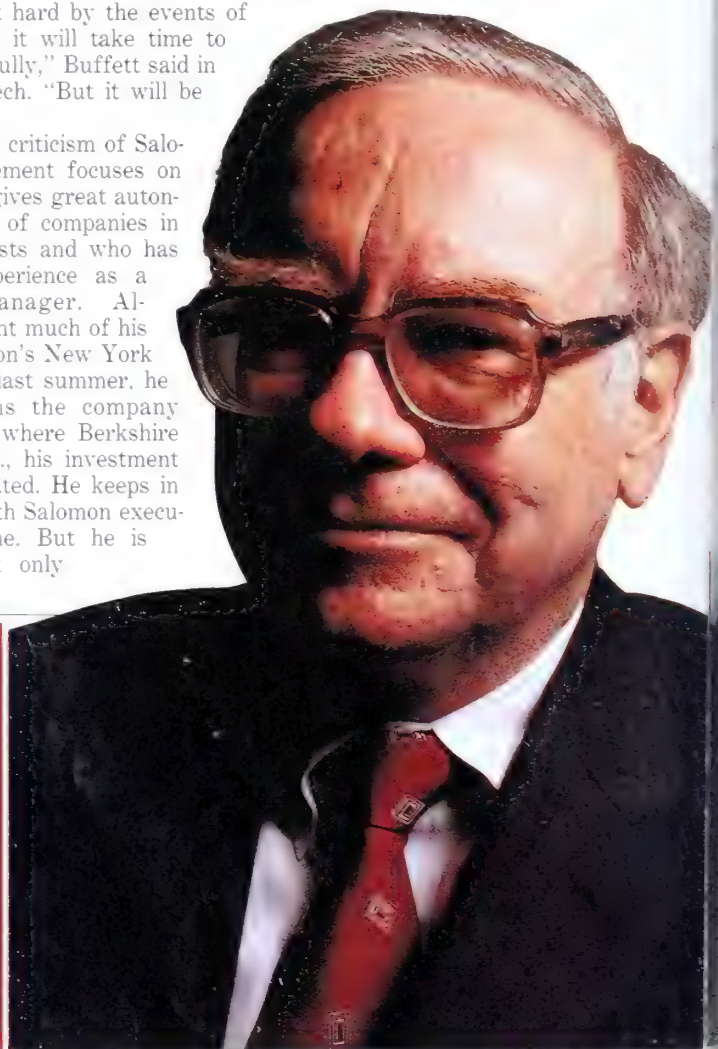
vised. At a time when most major firms are expanding the range of services they offer clients, Salomon appears to be narrowing its focus, especially in equities and investment banking. While most major firms view risk-taking as crucial to staying competitive, Salomon seems to be becoming increasingly risk-averse.

Salomon's top executives, who decline to be quoted by name, deny that the firm is changing its strategy or scaling back equities or investment banking. "Through no fault of their own, both areas were hit hard by the events of last year, and it will take time to restore them fully," Buffett said in a Jan. 28 speech. "But it will be done."

Much of the criticism of Salomon's management focuses on Buffett, who gives great autonomy to heads of companies in which he invests and who has had little experience as a hands-on manager. Although he spent much of his time at Salomon's New York headquarters last summer, he currently runs the company from Omaha, where Berkshire Hathaway Inc., his investment vehicle, is located. He keeps in close touch with Salomon executives by phone. But he is in New York only about one

day a week and hasn't attended regular partners' meetings since last August. "We have telephones in Omaha, just like New York," says T. Verne McKenzi, secretary of Berkshire Hathaway. A senior Salomon official says the firm "dominates Buffett's thinking and we wait until we get it settled."

Still, Buffett leaves the day-to-day operations to his designated successor, Deryck C. Maughan, the chief operating officer. The 44-year-old's credentials



BUFFETT'S CHALLENGES

STRATEGY Firm lacks clear direction. Has given mixed signals on commitment to investment banking and equities

EMPLOYEE DEFECTIONS Uncertain leadership at the top, management reshuffling, compensation cuts, and stigma from scandal have made it hard to keep key employees

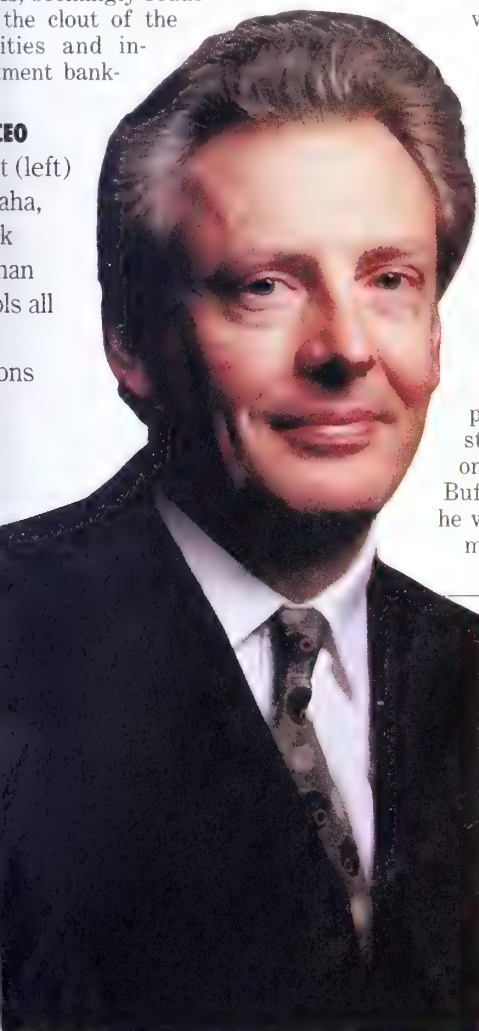
COMPENSATION Policy inconsistent. Firm cut compensation \$110 million, then hiked pay when key employees left

MANAGEMENT CEO Buffett already spending less time at Salomon's New York headquarters. But designated successor Deryck C. Maughan still needs Buffett's help

n perfect for the job: He is squeaky
n, has a successful record, and is
regarded. A British citizen, he even
ed a stint in the British Treasury.
t recently, he headed Salomon's
ly profitable Tokyo office, having
good fortune to be thousands of
s away from the scandal-tainted
d department. But several former ex-
ives say he is a low-profile individual
is a far cry from Gutfreund, a pow-
l personality who used fear and ma-
mo to dominate Salomon's en-
ched fiefdoms.

DING DOWN. Maughan has been un-
to arrest the perception that Salo-
n's strategies are floundering. In the
28 speech, Buffett said reducing the
s commitment to investment bank-
and equities was "unthinkable." And
mon plans to hire 35 equity profes-
sals. But the belief is widespread that
the firm is returning to its roots as a
d house. Late last year, Maughan
employees that the profitability of
ties and investment banking was
ed. The firm forced out its well-re-
ded head of equities, Stanley B.
okorn. And it packed Salomon Broth-
executive committee with bond
fs, seemingly reduc-
the clout of the
ities and in-
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'You are dealing with a morale issue that is extremely important to holding the firm together'

ing representatives. "Some signals indi-
cate they're backing away from the
equities business, but their public po-
sure is they're staying in. I'm confused,"
says John Keefe, an analyst with Lipper
Analytical Securities Corp.

Buffett also seems intent on cutting
Salomon's risk profile. In a recent
speech to employees, Maughan said that
before last August, there seemed to be
"no limit on the balance sheet. That has
changed. It's a finite balance sheet." Bruce C. Hackett, Salomon Brothers' new equity chief, says the department is shifting from trading for its own ac-
count to customer trading and has dis-
banded a large proprietary equity hedge
fund. "There are no restrictions on our
desk in terms of committing capital but
to do it intelligently," says Hackett.

Former Salomon executives say less
willingness to take risks is costing
the firm business. Shopkorn, for
instance, often used the firm's
capital to handle large blocks of
stock for big customers. That
helped build close client rela-
tionships that brought in a lot
of other business. Now, "in-
stead of going out and bidding
on, say, 100,000 shares, they'll
take on 10,000 shares," says one
investment manager. "It will
mean a real pullback."

Equally ill-advised has been
Buffett's widely publicized cam-
paign against Salomon's salary
structure, which has backfired. Salo-
mon shareholders rejoiced when
Buffett stated in newspaper ads that
he was slashing compensation by \$110
million in the third quarter of 1991.
What better way to boost earn-

ings than by reining in overpaid Wall
Streeters? And if they left, so be it, Buf-
fett said.

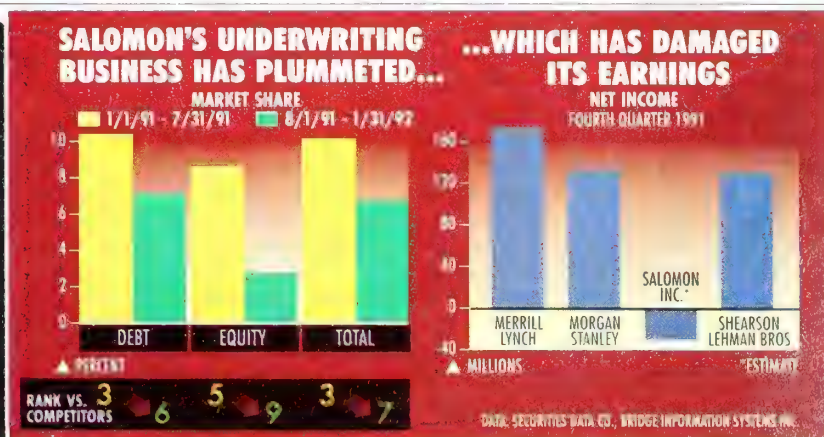
But the Wizard miscalculated. A get-
tough strategy may have worked in a
poor market when employees had no-
where else to go. But the Street is boom-
ing. While Salomon sliced most employ-
ees' compensation some 20% to 30%,
Salomon's competitors were handing out
equivalent raises. The resulting defec-
tions have included high-profile sales-
people and traders; senior staff in pri-
vate placements, high yield, over-the-
counter, and block trading; key individ-
uals in Salomon's London office; and
several research analysts, including
Thomas H. Hanley, who helped expand
the firm's bank underwriting business.

BONUSES BACK. Startled by the depar-
tures, the firm has backed away from
the policy. Salomon restored compensa-
tion to pre-1991 levels and has cut spe-
cial deals guaranteeing bonuses to a se-
lect few equity analysts, a highly
criticized Wall Street practice. "It's a
sign of desperation," says recruiter Alan
Johnson. And in a further sign that Salo-
mon is locking itself into a potentially
costly compensation structure, Maughan
rolled out a new companywide pay sys-
tem in late January that guarantees all
employees a minimum bonus in 1992.

This could stem more departures.
More broadly, Buffett and Maughan are
trying to dispel a deepening disillusion-
ment about the firm's direction. "There's
a question of leadership and trust," says
one employee. Adds Joan Zimmerman, a
recruiter with G. Z. Stephens: "You are
dealing with a morale issue that is ex-
tremely important to holding the firm
together. If you have crushed morale in
one or two departments, you're very
vulnerable."

For all its troubles, Salomon remains a
top-tier firm along with Goldman Sachs,
Merrill Lynch, and Morgan Stanley. But
keeping that position may well require
another act of magic from the Wizard of
Omaha.

By Leah Nathans Spiro in New York,
with Richard A. Melcher in London



THE STURDY HOUSE THAT KAUFMAN & BROAD BUILT

Amid the slump, it cut prices, boosted advertising—and prospered

Bruce Karatz isn't about to let anything get in the way of selling homes. Not California's worst postwar real estate slump. Not the disappearance of hundreds of savings and loans that once financed the state's builders. And certainly not a menacing pair of medieval-style crossed swords hanging over the fireplace of a poor-selling model in a new-home development in Oxnard. The morning after he visited the site, Karatz, chief executive of Kaufman & Broad Home Corp., axed the Gothic decor.

Karatz' quick reflexes, which made his company a rare success story in the housing downturn, could make it an even bigger winner in coming years, especially if President Bush's proposed tax breaks for first-time buyers are enacted (page 37).

K&B has thrived amid adversity. Single-family home starts nationally dipped 6%, to a postwar low of 841,600, last year. In California, K&B's primary market, starts slumped 29%. Yet Karatz found a deft survival strategy: Slash costs, sell off higher-cost properties, and focus on starter homes—the housing market's only speck of light.

K&B knows about first-timers. It has an aggressive television advertising campaign aimed at them. And an aggressive pricing policy. Karatz has knocked down K&B's average California home price to just under \$160,000, from \$196,600 in 1990, well below the state's current \$200,000 average.

READY FOR RECOVERY. Such attention to marketing helped to more than quadruple K&B's profits in the fourth quarter of 1991, to \$13.1 million. Buoyed by low interest rates and the big ad push, January sales jumped 49% from a year earlier. The top seller in fast-growing California since 1985, K&B has increased its market share to 4% of the state's new single-family homes, from 2.7% a year ago, positioning itself for an economic rebound. It is selling homes in 40 new developments and will open 20 more subdivisions by April.

No wonder Wall Street likes its stock, which has outstripped most other housing-industry issues lately (chart). K&B's shares have doubled in value since Au-

gust and are trading at 24½ on the New York Stock Exchange. And the company's 14.9% return on equity ranks it among the cream of the nation's homebuilders. With earnings picking up, Oppenheimer & Co. analyst Barbara Allen figures K&B will boost its return on equi-



KARATZ: FOCUSING ON STARTER HOMES—AND RAKING IN PROFITS

ty to 29.5% this year. A few other large, publicly traded residential builders, such as Centex Corp. in Dallas and Pennsylvania's Toll Brothers Inc., are increasing market share, too. Yet their good fortune comes at the expense of hundreds of small builders that have gone bust in the recession. Other victims are large players that had too much debt, such as U.S. Home Corp., which filed for bankruptcy last year.

In addition to market savvy, Karatz' success stems from ready cash. Other builders would like to jump into his entry-level niche. But most can't get the fi-

nancing now that banks and thrifts have backed away from most real estate lending. K&B relies on long-standing bank lines of credit, aided by its solid track record and clean (for a builder) balance sheet. Debt is just 60% of total capital vs. the 68% industry average. And as a public company in an industry dominated by private operators, K&B can raise money through public offerings of stock and debt.

'STILL CAUTIOUS.' This allows K&B, unlike capital-strapped rivals, to have new developments ready if home-buying demand takes off again. The company can keep building while scooping up vacant land—often already prepared and zoned for construction—at bargain prices from sick thrifts and distressed builders.

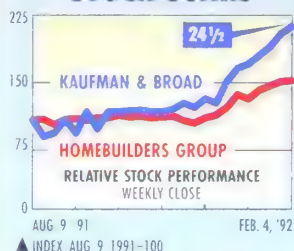
Still, risks remain. Kaufman & Broad also builds homes and office buildings in France, which accounts for half its revenues. Housing there is in the dumps. Worse, what if the recession at home persists and the California housing market plummets anew? Says Karatz, "We're still cautious."

Karatz, 46, is used to weathering bad times. He became the homebuilder's president in 1980, amid a recession made still more abnormal by double-digit interest rates. Then, Karatz pruned K&B's sprawling operations back to just California, France, and a small Canadian unit. The company's transformation was complete in 1989 when K&B was spun off from the company's insurance operations, now named Broad Inc. and headed by K&B co-founder Eli Broad.

The Golden State rebound that K&B is counting on seems preordained by population trends. Despite recession, migration to California appears relentless, and the newcomers need shelter. Population grew 2.5% last year and should surge 2.1% in 1992. Single-family housing starts are expected to jump 22% this year, from 1991's depressed 73,700. If K&B's shovels will be the first in the dirt.

By Kathleen Kerwin
Los Angeles

KAUFMAN & BROAD'S STOCK SOARS



GARY WEISS

THE MORE FOLKS CRIMP, THE BETTER PERRIGO LOOKS

When the prospectus for Perrigo landed on Bob Czepiel's desk last fall, he was underwhelmed: yet another obscure company offering stock to the public in yet another reverse leveraged buyout. "I threw it away at first," recalls Czepiel, manager of Robertson Stephens Emerging Growth Fund and one of the best hands in the small-stock biz. But Czepiel gave the issue a second look—and so did a lot of other investors. Lucky for them: Perrigo has sizzled, and it should remain hot for quite some time.

Perrigo is the largest manufacturer of store-brand pharmaceuticals and personal-care products. The company, which went private in 1988 in a management-led LBO, was taken public by Morgan Stanley and J.P. Morgan on Dec. 17. The price: \$16 a share. But Perrigo's NASDAQ-traded stock hasn't changed hands for less than 20 in the ensuing weeks—and now, it's at 32½. Why is the Street so excited? Well, this 100-year-old, Allegan (Mich.) company is the leader in a fast-growing industry. Private-label products are getting an added boost from recession-weary consumers who are pinching pennies.

You name it, Perrigo makes it: cut-throat but chemically identical versions of Alka-Seltzer, Tylenol, Advil, Actifed, Aftershave, Oil of Olay, Preparation H, Band-Aids, and a host of other products. The labels carry the name of the retailer—a stellar roster of clients led by Wal-Mart Stores, Kmart, and Walgreen. Although consumers pay much less for Perrigo's products than for name brands, the company's operating profit margins have been handsome—11% has been typical in recent years. Says Czepiel: "It's a no-lose situation for everybody—except the makers of the original products."

OFF A DUCK'S BACK. Perrigo has had to defend itself against a stream of legal challenges from peeved pharmaceutical companies, but none of the suits has drawn blood. The company also faces competition from a host of small competitors, but those companies are fragmented along geographic and product lines. And its rivals' ranks were recently reduced when Perrigo purchased pri-

PERRIGO: ON A SWIFT UPDRAFT



vate-label product purveyor Cumberland-Swan.

With such a firm hold on the store-brand market, Perrigo has been a roaring success. The company realized profits of \$12.2 million from \$281 million in sales in the fiscal year that ended last June 30. Earnings have nearly quadrupled over the past three years, and in the quarter that ended Sept. 30, profits tripled over the year before. Czepiel estimates that earnings will rise to 70¢ a share in the fiscal year ending June 30, vs. 41¢ a year before, with \$1.10 likely in 1993. That's a price-earnings ratio of 50 on current earnings, which is hefty but justifiable, given the company's growth prospects. It looks like the party at Perrigo may be just beginning.

A DISCOUNTER DIVINERS MISSED

Discount retailers had a magnificent 1991, and few rose more mightily than the handful that specialize in office products. Two chains, Staples and Office Depot, tripled their share prices during the year. Staples now trades at 70 times 1991 earnings, while Office Depot's p-e of 63 is only a little less steep.

Are there any reasonable values left? One smart, far-from-overpriced pick in that arena is Intelligent Electronics. Intelligent, which operates the BizMart chain of 72 cut-rate office-supply stores in the Midwest and west of the Continental Divide, has also been a standout stock performer. The shares doubled in 1991 on the strength of a 30% gain in sales and earnings. But the

company hasn't attracted the kind of attention on the Street that has elevated the shares of its pricey peers in office retailing. At 47¼, the stock is trading at only 21 times the \$2.21-a-share it earned in the fiscal year that ended last October. That has caught the eye of William Keithler, who runs the Financial Dynamics mutual fund in Denver. "Discounters and value-oriented stores have the most earnings momentum, and for a discounter, Intelligent is comparatively cheap," he says.

Keithler expects the company to earn \$2.60 a share in the fiscal year that ends next October. And that's not pie in the sky—some analysts are predicting as high as \$3 a share or higher. Even if Keithler's conservative estimate holds, it means the shares are now trading at only about 14 times projected earnings. And if Intelligent Electronics gets half the p-e that has propelled fellow discounters, its stock could hit 90 this year.

NEW POWDER OR ICE AHEAD?

Any company that has its headquarters in Thief River Falls, Minn., must surely be worth a look. And Arctco, a leading company in the snowmobile business, certainly is.

Arctco also makes snowmobile parts and cold-weather garments. It's a solid business, but the company hasn't been shielded from the cold winds of recession. Earnings declined to \$1.06 a share in the fiscal year that ended in March, 1991, from \$1.26 the year before.

Arctco's fortunes began to pick up, however, in the fiscal quarter that ended in September, when the company reported earnings of \$11 million, or 86¢ a share, on sales of \$79 million. That was a 17% increase in profits—which surprised analysts, who expected no pickup.

Street expectations remain dour, though, with analysts surveyed by Zacks Investment Research predicting that earnings will decline again, to \$1 a share, in the fiscal year that ends in March, 1992. But Robert Sanborn, who runs Oakmark, a fast-growing small-cap mutual fund, thinks Arctco is still on the rebound—and that analysts have another surprise ahead. He sees earnings snapping back to \$1.20 a share, which would be a p-e of just 11 at its recent price of \$13 a share. "Arctco is selling at a deep discount to the market," says Sanborn, who has been buying.



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THE PATENT PIRATES ARE FINALLY WALKING THE PLANK

ough U.S. negotiating gets results, especially in Latin America

Pfizer Inc. sells Feldene, its patented anti-inflammatory drug, to São Paulo's retail druggists for the wholesale price of 31¢ per capsule. But local generic manufacturers supply the *drogas* with five different imitations of Feldene, under other names, at wholesale prices from 25¢ to 67¢ a capsule. Mexico's *farmacias*, meanwhile, sell knock-copies of Feldene bought from local producers for 29¢ to 33¢ per capsule.

That all of these druggists are really using is intellectual property—the results of Pfizer research that developed Feldene's basic molecule, piroxicam, at a cost of tens of millions of dollars. Local copycats are able to pirate the drug legally because Brazil doesn't recognize drug patents, while Mexico's recently tightened patent safeguards don't apply to copies already on the local market. Some countries, such as Thailand, don't even try to enforce their own patent and copyright laws.

The result is a loss of global sales estimated at up to \$17 billion a year (chart) for one of the most competitive U.S. industries. Besides drugmakers, these include producers of copyrighted software, mov-

ies, sound recordings, and books. Aside from recovering the sales lost to theft, these industries could increase their foreign revenues by an additional \$10 billion or so over time if marketing development abroad weren't deterred by piracy. Theft is "the biggest obstacle to foreign market access," says Harvey E. Bale Jr., senior vice-president of the Pharmaceutical Manufacturers' Assn., which groups U.S. research-based drugmakers.

Not everyone agrees. Government officials and industrialists in many developing countries argue that they have every right to copy existing products. "Who is robbing who?" asks José Fernando Magalhães, a director of Sintofarma, a Brazilian company that makes one of the local copies of Feldene. "Are we robbing from the patient? I don't think so." Like other Brazilian drugmakers, he calls for compulsory licensing of patented drugs to local producers. "Patients in any country must have the option of buying a drug at the best possible price," he says.

Like movies and software, drugs are fairly easy to steal using patent data or chemical analysis. And manufacturing a

drug is cheap, compared with the sky-high cost of inventing it.

Nevertheless, afflicted U.S. industries, backed by increasingly tough Washington negotiators, are beginning to score victories after years of frustration. Mexico is offering 20-year patent protection and other safeguards. Even China, a notorious pirate, agreed on Jan. 16 to enact stricter patent and copyright safeguards—and to enforce these rules against violators, many of them state-run companies. Two days earlier, Canada announced that it is closing a big loophole in its patent law that forced patent holders to license their drugs to local generic producers before the patents ran out.

BIG STICK. What's spurring these U.S. victories is hardball negotiating with key trading partners. Mexico enacted its new law in hopes of winning a free-trade deal with the U.S. And China promised to leash copycats because U.S. Trade Representative Carla A. Hills threatened otherwise to slap heavy duties on Chinese exports to the U.S. worth up to \$1.5 billion.

The actions to make the world safer for intellectual property will spur investments by U.S. companies to export more patented and copyrighted products and also step up production abroad. Of all the major American sectors plagued by piracy, the pharmaceutical industry is the largest and the most multinational. In Argentina, where legislators are expected to act by midyear on a bill to strengthen patent protection, Pfizer has doubled its sales force and is "spending money like mad to introduce new products," says Brower A. Merriam, executive vice-president at Pfizer In-

PIRACY'S TOLL IS COSTLY...

U.S. SALES

FOREIGN SALES

ESTIMATED FOREIGN SALES LOST TO PIRACY



PHARMACEUTICALS

\$45 BILLION

\$22 BILLION

\$4 BILLION

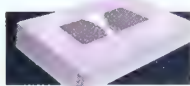


SOFTWARE

\$18 BILLION

\$25 BILLION

\$9 BILLION



MOVIES

\$11 BILLION

\$8 BILLION

\$1 BILLION



SOUND RECORDINGS

\$7 BILLION

\$4 BILLION

\$2 BILLION



BOOKS

\$16 BILLION

\$2 BILLION

\$1 BILLION

...WHERE IT'S ALLOWED...

BRAZIL	Draft patent law obliges local production or licensing
HUNGARY	Eastern Europe's holdout against patent safeguards continues to copy Western drugs
INDIA	Refuses drug patent protection, exports pirated drugs, opposes effective GATT safeguards
THAILAND	Does not enforce patent and copyright laws

...BUT DEFENSES ARE GETTING STRONGER

ARGENTINA	Intellectual property law expected to pass by mid-1992
CANADA	On Jan. 14, ended compulsory licensing of drugs to generic manufacturers
CHILE	1990 law protects drugs patented after Sept. 30, 1991, but only for 15 years
CHINA	Under threat of U.S. trade reprisals, agrees to strengthen copyright, patent protection
MEXICO	1991 law protects product patents for 20 years. Software copyright valid for 50 years
SOUTH KOREA	Prodged by U.S., government raids book pirates

DATA: INDUSTRY ASSOCIATIONS, BW ESTIMATES

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ternational. In Canada, Johnson & Johnson has expanded its research 50% as a result of earlier steps by Ottawa to strengthen patent protection.

U. S. moviemakers and other copyright industries are also benefiting. "The great growth area is abroad," says Jack Valent, president of the Motion Picture Association of America. "Wherever we can go because we are protected, we go in immediately." In South Korea, a crackdown on pirates prodded by Washington hiked U. S. moviemakers' revenues to \$100 million last year, up from \$7 million in 1988.

The U. S.'s country-by-country negotiations are one side of a two-track campaign. The second is the trade bargaining that will soon reach a make-or-break stage: the 102-nation General Agreement on Tariffs and Trade (GATT). Although American negotiators have been pushing for worldwide agreement to curb intellectual pirates, U. S. companies worry that a compromise draft accord, proposed by GATT Director General Arthur Dunkel, could give piracy free rein for another decade by allowing a 10-year transition before countries must clamp down on pirates.

Even if the GATT talks fail, the U. S. goes tough approach in dealing with individual countries is likely to continue yielding results, particularly in Latin America. U. S. bargaining power has increased because Latin economic reformers are eager to strengthen ties with the U. S.

MEXICAN MODEL. A watershed for intellectual-property protection was Mexico's President Carlos Salinas de Gortari's 1990 decision to seek a North American Free Trade Agreement (NAFTA). This gave U. S. drugmakers and copyright industries unusual political leverage. They seized the opportunity to convince Salinas that strict Mexican safeguards for intellectual property were the essential quid pro quo. "We got congressmen to talk to the Mexican President," recalls Pfizer Chairman and Chief Executive Officer Edmund T. Prell Jr. "We threatened not to support the effort for a free-trade agreement."

Now, Trade Representative Hills is holding up Mexico's law as the model for the rest of the hemisphere. A key provision: the Mexican law is protection for drugs already patented in the U. S. or other countries—not just new drugs patented after the law took effect last June. This is crucial, manufacturers say, to safeguard new drugs coming down the pharmaceutical pipeline. There's big money at stake: an average \$230 million each to develop and test new drugs.

Argentina seems likely to follow Mexico's example. A draft intellectual property bill being debated by legislators is "a very modern law," says Ernesto Buesa, managing director of Merck & Co.'s Argentine marketing subsidiary. In the 1980s, by c

, Merck and other U. S. and European companies shut down many drug plants in Latin America because of piracy and other problems from price controls to inflation. Merck turned over manufacturing to a licensee in Argentina and to a joint-venture partner in Brazil. Eli Lilly & Co. also moved out of Argentina, where it now licenses products to another manufacturer, while. A flock of other drugmakers, including Upjohn, Parke-Davis, Schering-Plough, and Syntex, exited from Brazil. There are still plenty of question marks in Latin America, to be sure. The biggest one is Brazil. A new draft patent law, which the Brazilian Congress could pass by June, is still highly nationalistic: it denies protection to drugs that are not made in Brazil, a provision intended to force patent holders to manufacture or license them locally.

EATING. Despite such problems, Brazil is a hard place for the multinationals to get away from, simply because of its size and Latin America's biggest market. Despite pullbacks by a number of drugmakers, others have stayed on. Lilly is investing \$10 million at its Campinas plant, near São Paulo, to expand capacity and incinerate wastes. Pfizer doubled its investment there in the past two years to supply a veterinary drug for poultry to most of its world markets. Now, Pfizer is considering an additional \$20 million investment in veterinary products in Brazil to supply the local market and for export. But Pfizer is "taking a beating" in pharmaceuticals: it will shut down some facilities for its products, says Merriam.

While U. S. companies are the biggest victims of product theft as a group, European drug companies also have a lot at stake. The single most-pirated product is Zantac, an ulcer medicine made by Glaxo's Glaxo Holdings PLC that is the world's biggest-selling drug. The "worst offenders" are Brazil and India, according to Glaxo Director Jeremy A. W. Strachan. In Brazil, local companies started making Zantac under various names even before Glaxo launched the drug there.

That is why Glaxo and other European drugmakers are closely watching both the trade negotiations and the U. S. drive to curb intellectual-property theft. If the trade talks fail, Strachan figures the second-best alternative is for other industrial countries to follow the U. S. lead, thus ending the clout of major European governments in the U. S. arm-twisting strategy. By threatening retaliation, the Europeans could help "pick off the worst offenders one by one," Strachan says. GATT or no GATT, the global campaign against patent pirates could just be beginning.

by John Pearson in New York, with Geri Johnson in Rio de Janeiro, Joseph Weber in Philadelphia, and Mark Maremont in London

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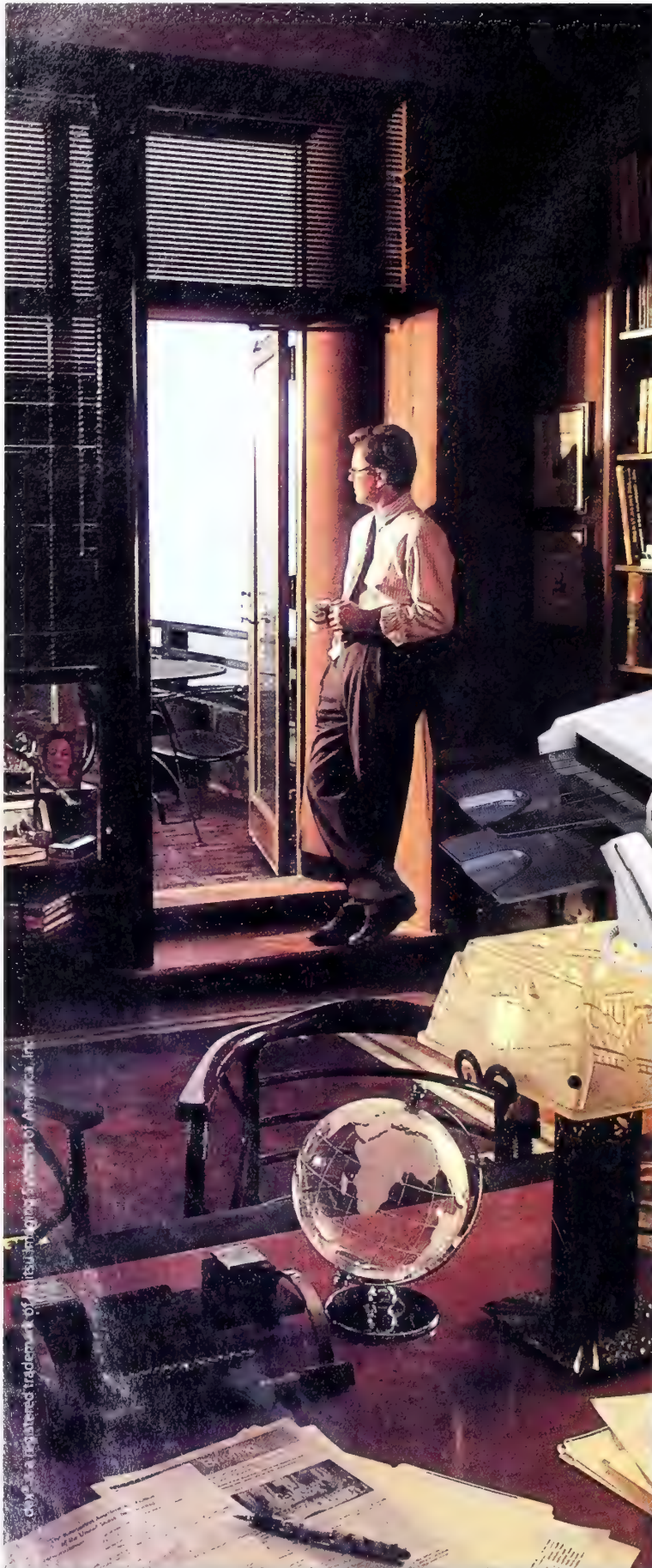
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BY FLEUR TEMPLETON

THAT NEWSPRINT FIT FOR PACKAGING



Recycling has been so successful that the market is flooded with old newspapers. Molded Fibre Technology Inc., a tiny startup in Westbrook, Me., has an answer: a process that lets recycled newsprint replace plastics for many kinds of packaging.

The company refined a century-old process—called repulping—that has been used for mak-

things like egg cartons. Newsprint is formed into papier-mâché slush, then vacuum-molded and dried. MFT uses interlocking molds in a single production run to turn out everything from baking trays to camera or cosmetics cases. The approach is cheaper than plastics. Shiva Corp. in Cambridge, Mass., which previously shipped its computer modems in \$2 Styrofoam blocks, now buys recycled newsprint cushions from Molded Fibre Technology for 68¢ each. MFT plans to license the technology and set up joint ventures.

IS TOOL MAKES IT A SNAP TEST A METAL'S TOUGHNESS

When the strongest material has its breaking point. Conventional metal-fatigue tests can take hours and rely on computer-controlled hydraulic machines that cost up to \$100,000. Engineers Eric Stromswold and David Quesnel at the University of Rochester have devised a simple, inexpensive test for metals such as steel and aluminum that are used in planes or spacecraft, where low weight and high strength are a top priority.

The process measures how well a material can resist fracture once a crack develops. Small metal samples are placed in a vise between two wrench heads. The vise twists the metal sample to develop a crack, then measures the increasing force required to snap the sample completely.

The testing equipment will cost less than \$1,000 and will ensure fracture-resistance in a few minutes. It isn't intended to replace more sophisticated metallurgical analysis—such as determining exactly how a fracture develops. Instead, Stromswold and Quesnel expect the "toughness tool" to be useful in the quality-control market, where large numbers of samples must be tested quickly.

COMMON DRUG MAY CAUSE BLINDNESS IN DIABETICS

Diabetes is the leading cause of blindness for people under 65. So far, physicians have only been able to use surgery to slow the damage. However, at Pennsylvania State University, biologist Theodore Hollis and ophthalmologist Thomas Gardner have discovered how diabetes causes blindness—and it might be prevented. The researchers found that blood vessels in diabetics' eyes produce histamines, substances that cause the blood vessels to leak and that are involved in allergic

reactions. Damage to the retina, the researchers suspect, is a long-term effect of the histamines and of the fluids that leak out of the blood vessels.

The discovery suggests that prescribing antihistamines, commonly used to fight allergies, may prevent diabetic blindness. The Penn State researchers first showed that such drugs prevent blood-vessel leaks and eye damage in rats. And preliminary results of a six-month trial using antihistamines on 14 patients look promising. "If it is conclusive, then we can proceed with a larger clinical trial," says Gardner.

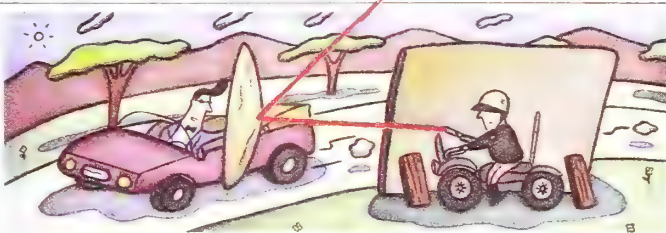
SUPERTOUGH PLASTICS THAT GO EASY ON THE BUDGET

Soft-drink bottles and other injection-molded plastic parts are cheap to make but can't withstand high pressure or heat. Thermoplastics are much more rugged but far costlier. Now, Hoechst Celanese Corp. has come up with a polymer that combines the best of both kinds of plastics.

Based on the company's Celazole polybenzimidazole, the new "T-series" resins can handle pressures up to 32,000 pounds per square inch and temperatures up to 619F, just a shade below the best similar resins. Yet unlike thermoplastic parts that must be machined from a solid block, these can be injection-molded or extruded into complex shapes in high volumes. Lorenzo P. DiSano, a Hoechst Celanese technical marketing and development manager, estimates the cost of making a small electrical insulator using the new polymer would be half the cost of a thermoplastic part. "For small parts, machining becomes a huge part of the overall cost," he says.

So far, the polymer has been used in aerospace and oil-field applications, such as in safety valves atop oil rigs. DiSano sees future uses in such auto parts as piston rings and brake components, which require light weight, hardness, low friction, high strength, and stability amid high temperatures.

HELPING SPEEDERS STAY AHEAD OF THE LAW



It's a civilian version of electronic warfare—where each advance is met by a countermeasure. First, police got radar to trap speeding motorists. Then came the radar detector. So, to nab lead-footed drivers, police are beginning to use laser guns. But even before laser guns are common, Cincinnati Microwave Inc. (CMI) has unveiled a detector to foil them.

To determine a car's speed, the cops' laser gun computes the difference between the time for each infrared light pulse to bounce off a target and return. In place of a radar antenna, the new detector has a photosensitive cell. The system alerts speeders by beeping and flashing a light.

There are rays of hope for the police: Only about 300 laser guns are in use, and CMI says it won't be economical to mass-produce laser detectors until that number increases tenfold. And the rivalry isn't over. CMI says its device can detect laser pulses up to two miles away. But Laser Technology Inc., a laser-gun manufacturer in Englewood, Colo., claims that such detectors won't be able to warn speeders in time.

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IBM'S DEAL WITH BULL BOLSTERS ITS POSITION IN THE WORLD'S NO. 1 COMPUTER MARKET

LOOK WHO'S HELPING DEFEND FORTRESS EUROPE

IBM is cutting deals on the Continent to ward off the Japanese

For many years, IBM was Europe's *bête noire*. Embittered rivals, daunted by its dominance in mainframes, hauled the company before the European Commission on antitrust charges. They even tried to blacklist it from European research and development programs. None was more implacable than Groupe Bull of France where, for decades, the government aimed Bull's purchasing policies squarely at the U.S. giant.

Today, it's the Japanese that are the threat to Europe's computer maker—or so IBM would have them believe. With supreme irony, IBM is sounding the alarm in a bid to become the Continent's first line of defense. Already, Britain's International Computers and Ireland's Nokia Data have sold out to Fujitsu, and British PC maker Apricot went to Mitsubishi Electric. Warning that the same fate could befall Europe's beleaguered computer makers—Bull, Italy's Olivetti, Germany's Siemens-Nixdorf, and others—IBM is trying to persuade them to team up with it.

The logic has won over some tough skeptics. On Jan. 28, Bull itself, in which Japan's NEC holds a 4.7% stake, agreed a wide-ranging partnership with IBM.

State-owned Bull will base future computers on IBM's RS/6000 microprocessor and sell 5.7% of its equity to Big Blue for \$100 million. That breathes new life into the perennially money-losing Bull.

But like IBM's other moves, it's also aimed at bolstering the company's sagging position in the world's largest computer market. "To win against Japan in Europe, IBM can either control the territory, which is too expensive and risks antitrust action, or it can blunt the attack by defending the status quo," says Bull Chairman Francis Lorentz.

The Bull deal caps a slew of IBM moves in Europe. In the last two years, it has paid more than \$100 million for equity stakes in some 200 software and computer-services companies. In 1990, it began collaborating with Siemens to develop and produce 16- and 64-megabit dynamic random-access memory (DRAM) chips. The companies will split the \$1 billion cost of a DRAM plant, and share chip design duties with each other. "We'll bring the first 64-megabit technology to Europe," says Jürgen Knorr, head of Siemens' semiconductor unit. And that should reduce the European computer industry's reliance on Japanese suppliers.

In another sign of IBM's newfound acceptance, Europe's JESSI semiconductor development program admitted IBM as a member last year. At the same time, some members were objecting to International Computer Ltd. because of its tie-up with Fujitsu. Now, IBM is digging even deeper: As a concession to the French government for its approval of the deal with state-owned Bull, IBM agreed to transfer chipmaking technology to SGS-Thomson Microelectronics and boost its purchases from that Franco-Italian chipmaker.

ERODING SHARE. IBM's interest in Europe's chip business is hardly altruistic. IBM has begun a massive push to sell computer components such as chips and disk drives, as well as complete systems, to computer makers around the world. So far, it has signed 130 such deals in Europe. The goal is to grab 3% of Europe's \$30 billion computer components market by 1993, says Jack Hockley, who heads the effort for IBM Europe. IBM figures that Japanese components account for about 40% of the value in European-made machines. And unless IBM preempts Japan with European technology or its own, Japan "will only move in deeper," Hockley says.

An even more pragmatic goal for IBM in Europe is to stem its own slide. In 1991, its European revenues sank 6%, to \$25.6 billion, continuing the erosion of IBM's share from 32% in 1985 to 22.6% of the \$113 billion European market. Still, IBM's sales there surpassed those in the U.S. for the first time last year. Alliances could restart IBM's European growth. One motive behind the Bull deal is to expand the market for IBM's RS/6000 computer design, which is facing stiff competition from Hewlett-Packard Co. and others. HP vied with IBM for the Bull alliance right up to the last minute.

Now, Europe's computer industry is watching Olivetti and Siemens-Nixdorf to see if they will team up with IBM. Both now rely on a microprocessor from MIPS Computer Systems Inc., which has foundered lately (page 132), and could become converts to the RS/6000. Olivetti Chairman Carlo De Benedetti has negotiated with IBM for a tie-in similar to Bull's twice—once last October and once last month. Both times he balked at sacrificing Olivetti's independence. But with Bull in its camp now, says IBM Europe products general manager Bob E. Dies, IBM "has to look substantially more interesting to Olivetti and Siemens-Nixdorf." Neither company seems inclined to make the Big Blue move now. But nobody expected Bull to wind up sleeping with the enemy, either.

By Jonathan B. Levine in Paris

WHY ACE MAY BE IN THE HOLE

The attempt at a computer standard has grown unwieldy

Last April, it looked like a whole new game for the computer industry. A group of 21 companies, boasting such heavyweights as Compaq, Microsoft, and Digital Equipment, announced plans to come up with a single computer design for everything from personal computers to mainframes, all running the same software. The bold idea was to create an "industry standard" similar to the IBM PC, the world's most popular computer design. Only this time, a broad coalition of companies, not just Big Blue, would call the shots. The initiative, dubbed Advanced Computing Environment (ACE), was impressive enough to prod mighty IBM and Apple Computer Inc. into teaming up last summer to start creating their own standard.

But less than 10 months later, ACE's game looks like 52 pickup. MIPS Computer Systems Inc., supplier of ACE's main microprocessor, lost money and customers in 1991. Several ACE members are using alternative chips. Digital Equipment Corp., one of the prime movers behind the group, claims it's still committed to ACE but is rushing development of its own Alpha microprocessor. And confusion over ACE has slowed software development.

TWO HEADS. What happened? Somewhere along the way, the simple idea of a single standard turned into a Chinese menu. ACE began in late 1990, when computer makers that used MIPS's reduced instruction-set computing (RISC) chips got together to pick a common version of American Telephone & Telegraph Co.'s Unix. That way, programs written for one MIPS computer would run on all MIPS computers.

By the time the group went public last April, however, the "standard" had already grown a second head. Largely to accommodate the wishes of Compaq

Computer Corp., an influential PC maker, the group added the Intel Corp. microprocessors used in IBM-compatible PCs to the standard. And to bring in Microsoft Corp., MIPS proposed adding that company's forthcoming Windows-NT as an alternate operating-system standard. Then, last October, the muddy waters turned opaque as ACE endorsed another version of Unix.

The result: Now there are three ACE operating systems that can be used on either Intel- or MIPS-based hardware. And instead of a single design, that makes six possible combinations.

And a choice of six does not a standard make. The key to a standard is lots of software: spreadsheets, data bases, and so forth. But many software developers aren't writing for ACE because they don't know which combination will survive. RAD Technologies Inc. in Mountain View, Calif., isn't writing for MIPS ma-

chines, but President J. Jeffrey Morgan says he's likely to write for computers based on Intel chips and Microsoft's software. Technically, that's an ACE "platform," but it's one that PC makers will use with or without ACE.

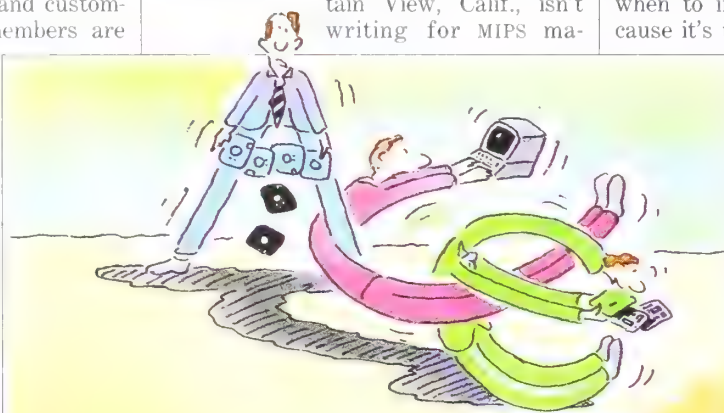
MIPS Chief Executive Robert C. Millins insists there's no problem with ACE. "If programmers adhere to its many standards," he says, they can make their programs run on different machines by using a translation technique called recompilation. But that works only for the simplest programs, software developers say, and not for all combinations. **STRONGER GUIDANCE.** The biggest blow to ACE has been dropouts. Compaq, the group's most high-profile member, hit a wall in 1991, posting its first loss and firing founder Rod Canion. Last month it announced that it's scrapping a \$1 million deal to develop MIPS-based machines with Silicon Graphics Inc. While Compaq says it's still committed to ACE, it's uncertain when it will build ACE computers.

Recently, ACE backer Prime Computer Inc. signed a \$400 million deal to resell Hewlett-Packard Co. computers, instead of MIPS-based workstations. Both Wang Laboratories and Groupe Bull just struck deals to use IBM's RISC chip (page 131). PC cloner Everex Systems Inc., another ACE member, says it hasn't decided when to introduce an ACE machine because it's unsure which variant will prevail. The upshot, says international Data Com analyst David M. Smith, "ACE in its current form may not survive."

But ACE isn't ready to fold its hand. It has launched a new marketing program and expanded its executive committee to provide stronger guidance to members. At a trade show in January, a group of ACE members showed new MIPS-based machines running the same program—sign that the ACE software wars may be ending.

Prospective customers aren't impressed. "Practically, we don't do anything for me," says Donald O. Steinfeld, who runs computer systems for Philadelphia law firm Morgan, Lewis & Bockius. ACE may turn out to be more than a house of cards, but right now few besides MIPS itself are betting their chips on it.

By Robert D. Hof in San Francisco



ACE'S SCATTERED DECK OF PARTICIPANTS

MIPS COMPUTER designed ACE's main microprocessor but has big financial problems—and perhaps too few customers to survive long-term

DIGITAL EQUIPMENT is designing its own microprocessor, different from MIPS's, for use in future workstations

COMPAQ COMPUTER, struggling for new growth in PCs, recently stopped working with Silicon Graphics on a MIPS-based workstation

MICROSOFT, the booming software giant, hardly needs ACE to thrive

OTHER members of ACE, meanwhile, are waiting for technical details of the ACE design to gel before they produce ACE hardware and software

DATA: BW

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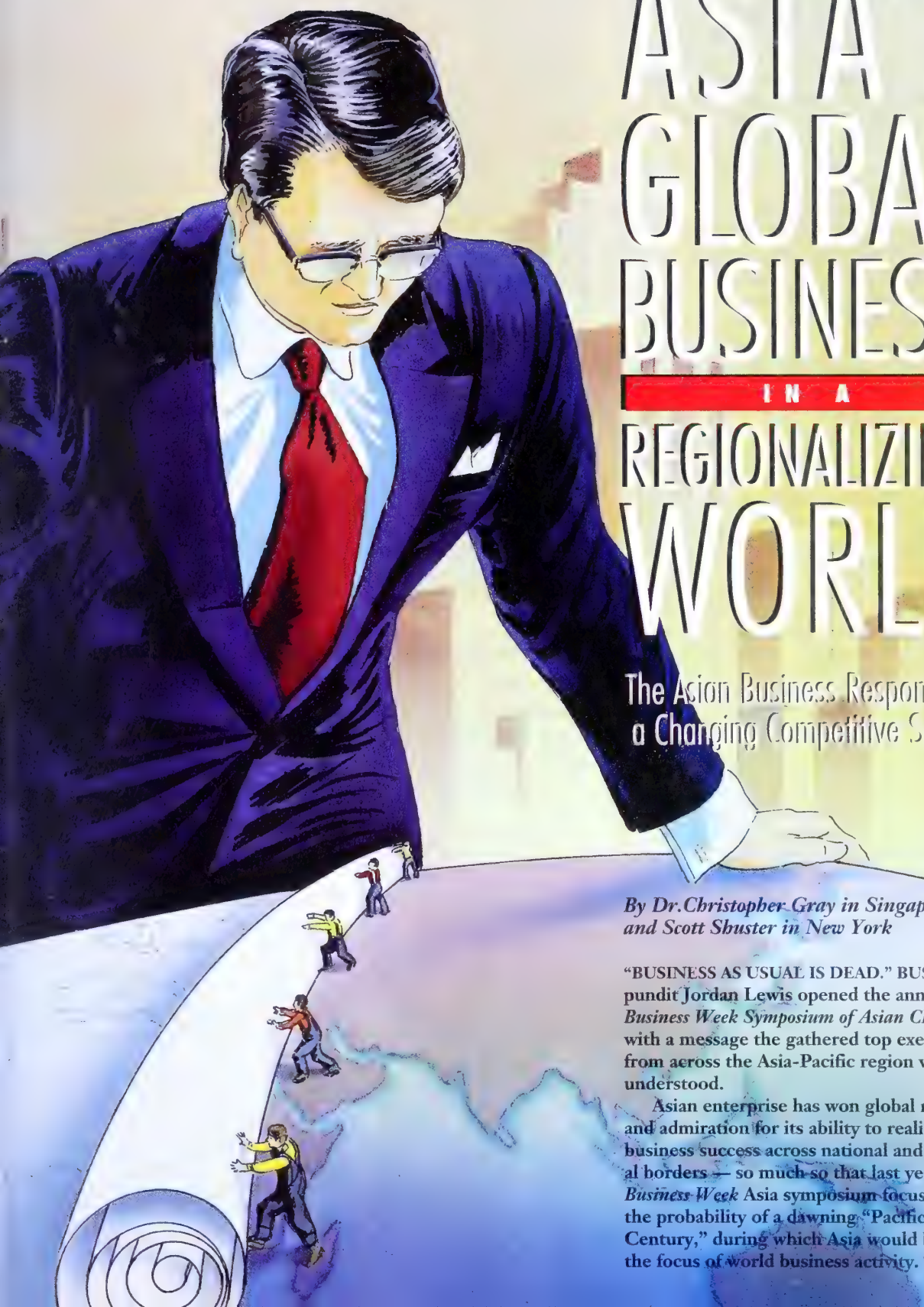
ASIA'S GLOBAL BUSINESS IN A REGIONALIZING WORLD

The Asian Business Response to
a Changing Competitive Scene

By Dr. Christopher Gray in Singapore
and Scott Shuster in New York

"BUSINESS AS USUAL IS DEAD." BUSINESS pundit Jordan Lewis opened the annual *Business Week Symposium of Asian CEOs* with a message the gathered top executives from across the Asia-Pacific region well understood.

Asian enterprise has won global respect and admiration for its ability to realize business success across national and cultural borders — so much so that last year's *Business Week Asia* symposium focused on the probability of a dawning "Pacific Century," during which Asia would become the focus of world business activity. This



year's meeting struck a more cautious note — not because of the recession worldwide, but because the world is responding to Asia's success and growth with barriers and the threat of barriers.

In Asian eyes it hardly seems fair. Just as Asian companies are meeting with success in their efforts to develop their own technologies, their own brand names, their own global production and marketing capabilities, they find the barriers to international business rising on all sides. Many Asian business executives view the economic unification of Europe and the proposed North American Free Trade Agreement the first salvos in what could be a dangerous world trade war.

"Free trade areas open business opportunities, but would be extremely harmful if they raised new barriers," says John P. Clancey, President and CEO of Sea-Land Service, the giant shipping and distribution services corporation. Sea-Land has a major presence in Asia, including the world's largest container freight station (located in Hong Kong). "Barriers could create political tensions and economic problems that could even spill over into outright hostility."

S. Linn Williams, the Deputy US Trade Representative who stepped down from his position a short time before appearing at the *Business Week* Symposium, says what happens next depends in large part on Asian businesses and governments. "It is difficult to keep open markets elsewhere if Asia's own markets are closed. American and European businesses must feel they have the same access to Asia that Asians have had to Western markets like the US."

Noting that the US buys twice as much of Asia's manufactured exports as Japan, Williams added, "Locally-oriented business centers will make or break the Pacific Century." As executives at the *Business Week* forum learned, trends around the world indicate that indeed it is the local, Asian business that looks most promising now.

ASIA'S GROWTH ADVANTAGE: ALTERING TRADE FLOWS

Through the first half of the '90s, the economies of Southeast Asia, Korea, and China should significantly outperform the rest of the world, according to DRI/McGraw-Hill Managing Director Douglas Beck. Japan, while achieving somewhat slower growth than her southern neighbors, will still be laps ahead of the US or Europe — east or west.

This growth, and the progressive opening of the Japanese market, is reshaping world trade and the global economy. By the end of this decade, Beck predicts, intra-Asian trade will be far more important to Asia than its trade with Europe or North America. North Americans who consider using their economic power to force change in Asian policies should also keep in mind that by 2000, Asian trade with Europe

SPECIAL ADVERTISING SECTION ASIA'S GLOBAL BUSINESS IN A REGIONALIZING WORLD



"THE ABILITY TO COMMUNICATE AROUND THE WORLD WILL BE MORE CRITICAL THAN EVER IN THE '90s."

— Ned C. Lautenbach,
IBM Asia Pacific President and
Representative Director

will exceed its trans-Pacific shipments.

So as Asian business looks out at the world just ahead, and considers the three principal trading areas of the globe (North America, Europe, and Asia) it sees North America fallen from its current first-place position to last a scant eight years down the road — barriers or no barriers.

JAPAN LOOKS SOUTH, WEST...AND AT ITSELF

Los Angeles and New York are both thousands and thousands of miles east of Tokyo. If Japan's prosperity has been built on US trade, Tokyo has had to travel a long, long way for success. Indeed, Japan's economic success has been built on what must be the longest long-distance trade relationship in history. As Japan considers its future, it cannot help but notice that the best opportunities for growth fall into just two categories: closer to home and right at home.

"Japan faces serious issues in the '90s. An aging population, a declining savings rate, changing lifestyles, and the need to invest domestically, especially in robotization and labor-saving techniques," according to Koji Tajika, director of international operations at Tohmatsu & Co., the Japanese arm of DRT International. "Thus," Tajika predicts, "while Japan will continue to be a major source of capital, the rate of growth in Japanese external capital investment will slow." Equally important, there will be a change of focus: badly burned in North America and Europe, many Japanese financial institutions will concentrate on building strength at home and in the region. Investment flows will favor Japan and Asia. Tajika suggests Indonesia will be Japan's external favorite in the years ahead.

Last year Japan put \$5.5 billion into Hong Kong, Indonesia, Malaysia, Singapore, and Thailand. Much of this investment was in the manufacturing sector, where Japan has emerged not only as an important investor, but also as a key source of technology. According to Bank of Tokyo Vice Chairman Eiichi Matsumoto, Japanese companies have a strong preference for technology transfer within the region, rather than far afield.

On the whole, Asian executives give Japan high marks for its long-term investment strategy in the region. Ho Kwon-Ping, President and CEO of Wah-Chang International, says bluntly that "American and European businesses are losing out by not coming in to set up manufacturing."

Mr. Ho's view does not overlook the enormous stake US and European companies already have in the Asian region, and the vital contribution they have made to economic modernization in most of the region's economies. But the fact is that since the mid '80s — as Japanese investment in the Asia region began to soar — American and Western European investment has not kept pace. As the Singa-

an Mr. Ho puts it, "Asian companies must see Japan as the foreign nation most central to their long-term future."

ACCESS THROUGH ALLIANCES

Business will be found in different places in years ahead, it will also be conducted in different ways. More and more Asian businesses are finding it useful to team up with Japanese and other foreign partners. A plethora of new alliances and joint ventures is seeing firms join not only with Japanese, American, and European technology providers, but also — notably — with each other, as intra-Asian alliances among firms of such nations as Japan, Hong Kong, Thailand, and Korea are being formed and work in concert.

Multinationals are the leading proponents of the various alliance strategies in Asia. Of IBM's 300 equity alliances worldwide, 25 are in the Asia-Pacific region. Many are on the leading edge of business development, such as a Japanese-language software joint venture in China linking IBM with mainland and overseas Chinese interests.

As Jordan Lewis observes, "It is a brand-new world. It is necessary to break the mold and look beyond issues like product cycles. Competition today is a team sport. Alliances are how you find purpose for the company. There are no longer permanent enemies. No companies have all the resources it needs."

"The key is to find the right partner," says Larry D. Bouts, International President of Toys "R" Us. His firm is expanding aggressively internationally, frequently developing remarkably successful local alliances. Toys "R" Us is credited with discovering one of the more surprising lessons of alliance building: according to Bouts, it is often best not to select a local company from the same industry.

Bouts adds that it is important for the foreign partner not to try to recreate his home environment when abroad. Rafiq Jumabhoy, Managing Director of Scotts Holdings Limited, a long-time partner with Japan's Orix, echoes this view, noting the importance of getting to know a partner's corporate mood, culture, and decisionmaking style. Partnering and alliance building is one of the most significant management challenges facing the global executive today. It is also the single area where successful management can yield the greatest results and avoid failures.

ACCESS THROUGH APPLICATION OF INFORMATION TECHNOLOGY

Essential of successful cross-border partnerships is the ability to communicate. "Information technology (IT) makes alliance possible," says Bank of East Asia CEO David K.P. Li. Many Asian companies have moved aggressively to upgrade their IT capabilities and equip themselves for global growth.

SPECIAL ADVERTISING SECTION ASIA'S GLOBAL BUSINESS IN A REGIONALIZING WORLD



"JAPAN WILL CONTINUE TO BE A MAJOR SOURCE OF CAPITAL, EVEN THOUGH THE RATE OF GROWTH IN JAPANESE EXTERNAL CAPITAL INVESTMENT WILL SLOW."

—Koji Tajima,
Director, International Operations,
Tohatsu & Co. (the Japanese arm of
DRT International)

"IT is already far more pervasive than most people realize," says IBM Asia Pacific President and Representative Director Ned C. Lautenbach. While every banking transaction or air travel reservation involves computers, so too do activities that have traditionally operated without benefit of modern technologies. Haw Par Brothers International uses IT to increase the efficiency of home deliveries in its Singapore Pizza Hut franchise. According to President and CEO Hong Hai, "In retailing, IT helps the salesman become an advisor to the customer."

Indonesia's Nusantara Aircraft Industries uses IT not only to control its components inventory, design, and manufacture, but also as a competitive essential of the product itself. Nusantara's Vice President for Information Technology, Sudjana Sapiie, points out that the company's new N250 plane will be only the third aircraft in the world to qualify to fly by a 100% automated system. That's IT at work.

Li told the *Business Week* symposium how his Bank of East Asia was bogged down with outdated IT in the early '80s. After upgrading, it was able to use its expanded computer capability to improve operational efficiency and anticipate customer needs. It has since gone on to develop a new data processing business, handling other banks' credit card billing. Says Li: "The right computer system, the right software, the right partner; all three are essential to success."

Even more value-added capability will be available to IT users in the coming decade, as such technologies as image processing, multimedia, object-oriented programming, and open systems come into play. Lautenbach predicts revolutionary, not evolutionary, change, and none too soon: "The ability to communicate around the world will be more critical than ever in the '90s."

GOING LOCAL

The paradox for Asian business in the '90s is the need for global management skills, even as the world of business becomes more a regional than global theater. The fact is, any international activity, whether on the other side of the world or just across the border, requires the skills of global management.

What are those skills, exactly? "Business must effectively utilize people, capability, and technology in all parts of the world," explains Sea-Land's John Clancey. Easy to say...more difficult to define the method — and tougher still to do successfully.

Larry Bouts of Toys "R" Us warns against trying to sweeten the local business culture with US culture and technology. Wah-Chang International's Ho Kwon-Ping advises Asian companies that are not already global to approach the task a step at a time: "Unless a company is already viewing the world as a sin-

gle canvas, it is better to start with a coherent regional strategy than a half-baked global one. Going global is not for everyone. Asian companies should focus on regional strategies and develop a critical mass of products, technologies, and management."

DHL International, one of Asia's most prominent global firms, is a leading example of local success. Chairman Po Chung explains DHL's way succinctly: "Think global. Act local. Push decisionmaking to the lowest level." The result is an extremely flexible, highly motivated operating structure and style. Even the DHL corporate budget is developed in this manner. It emerges naturally from a bottom-up process that engages managers in setting and fulfilling goals and determining requirements.

Also a successful global enterprise, Sea-Land Service follows a similar approach. "We are a global company," says Clancey, "but we empower regionals to act locally. We do that to leverage our local infrastructure. We live the paradox of being a global firm in a regionalized world."

CROSS-BORDER INVESTMENT

The economic success that has brought better living standards to many Asian economies has also increased operating costs. The need for increased value-added to offset these costs impacts traditional low-end production methods, forcing companies to change the way they operate. One result, according to ChinaVest Managing Director Robert A. Theleen, is a revamping of business as firms opt for production on a larger scale at multiple sites in several countries.

This trend demands more capital and more professionalized management. This movement is most advanced in Hong Kong and Taiwan, where, Theleen notes, "We are seeing the end of the traditional family company."

Another consequence is what Bank of East Asia's David Li terms "the Greater China Productivity Triangle," the increasing integration of the Taiwan, Hong Kong, and South China economies as Taiwan and Hong Kong manufacturers move low-end production into China. Since 1989 China has lost much of its

SPECIAL ADVERTISING SECTION

ASIA'S GLOBAL BUSINESS

REGIONALIZING WORLD



"WE LIVE THE PARADOX OF BEING A GLOBAL FIRM IN A REGIONALIZED WORLD."

—John P. Clancey, President and
CEO of Sea-Land Service, Inc.

luster to international and even many regional investors. But the process of economic integration has steadily advanced and is creating what will be one of the world's most important sub-regional economies by the late '90s. "Much of the credit for what is taking place in the region must go to the Chinese economic authorities," says Theleen. Li agrees: "Quietly and without fanfare, market reform is being extended in China."

"The prosperity generated by the Greater China connection," Theleen continues, "is creating a consumer market of enormous proportions in South China." Among the companies already active in this region of China is Avon Products, which has a successful joint venture there, arranged with the assistance of Li's Bank of East Asia.

Further evidence of Asia's restructuring can be found in Vietnam. There the government is trying to set a course of economic reform that can succeed while maintaining political stability.

"It is extremely early in the cycle to be investing in Vietnam," notes Coudert Brothier Hong Kong Senior Partner W. Gage McAfee "although Taiwan companies are already quite visible there and the potential in terms of labor and natural resources is enormous." Key to any change is the normalization of diplomatic relations with the US, a development now expected within a year.

When that occurs, the world will see the economic emergence of yet another high-potential Asian economy as Vietnam joins China, Hong Kong, Indonesia, Japan, Korea, Malaysia, Philippines, Singapore, Taiwan, and Thailand on the list of economies with the highest potential on Earth — the economies of Asia.

Perhaps the most striking bit of information heard at the *Business Week* Symposium of Asian Chief Executives was the fact that infrastructure development spending in East and Southeast Asia in the coming years may top \$500 billion. And that number does not include a single yen of investment within Japan — only other Asian spending. Asia, already an economic powerhouse, is likely to seize the mantle of genuine global economic leadership before the end of the decade. ■

WHERE THE ELITE MEET

Once again this year, senior figures of business and government around the world selected the three *Business Week* Symposia of Chief Executive Officers as their preferred venues to meet the leadership of the global business community. *Business Week* is grateful to the companies that made these events possible, and to the many leaders who graced our Asian, European, and US gatherings.

Publisher

John F. Akers, *Chairman of the Board, IBM Corporation*

Jacques Attali, *President, European Bank for Reconstruction and Development*

Michael Boskin, *Chairman, US President's Council of Economic Advisors*

Nicholas F. Brady, *US Secretary of the Treasury*
Carlo De Benedetti, *Chairman and CEO, Olivetti Group*

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Michael H. Davis, *President and CEO, The Wyatt Company*

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Lee Yock Suan, *Minister for Labor, Singapore*

GO FOR THE GOLD, YOU GOTTA HAVE GREEN

Now Corporate America is quietly helping Olympic hopefuls

When stockbroker Michael R. Lofton quit Wall Street two years ago, he began a futile search for another job that would allow him to maintain a career while chasing Olympic gold. The combination didn't sit well with potential employers. After learning that Lofton might be away from the office nearly a third of the time for training and competition, they closed him the door. But that was before Lofton, the country's top fencer, got some powerful help.

Thanks to the muscle of the U.S.

combining full-time pay and benefits with flexible hours, OJOP has helped athletes narrow the gulf separating them from the government-subsidized top jocks of other countries.

The athlete's financial burden can be enormous. While sports organizations usually pick up the tab for international competitions, the individual athlete has to bear the cost of training, travel, equipment, and domestic competition—\$5,000 to \$40,000 a year for a world-class athlete, according to OJOP. That's on top

of normal living expenses such as rent, car payments, and college loans.

Worse, the average U.S. Olympian, age 25 and out of college, has to choose: sports or career. That's what happened to Lofton, 28, a member of the 1984 and 1988 U.S. Olympic Fencing Teams. After graduating from New York University in 1988, Lofton quit fencing and became a Shearson Lehman Brothers Inc. broker. "I thought it was time to develop the professional side of my life," he says. Lofton couldn't get fencing out of his system, though, and decided to try out for the 1992 team. OJOP matched him up with Ernst & Young.

OJOP has done the same for 13 members of the U.S. team at the Winter Olympics, including luger Bonnie Warner, a United Airlines pilot. After the games, some will return to their companies to carve out a career. Miller Brewing, Allstate Insurance, and Security Pacific Bank, among others, all have former OJOP athletes still on payroll.

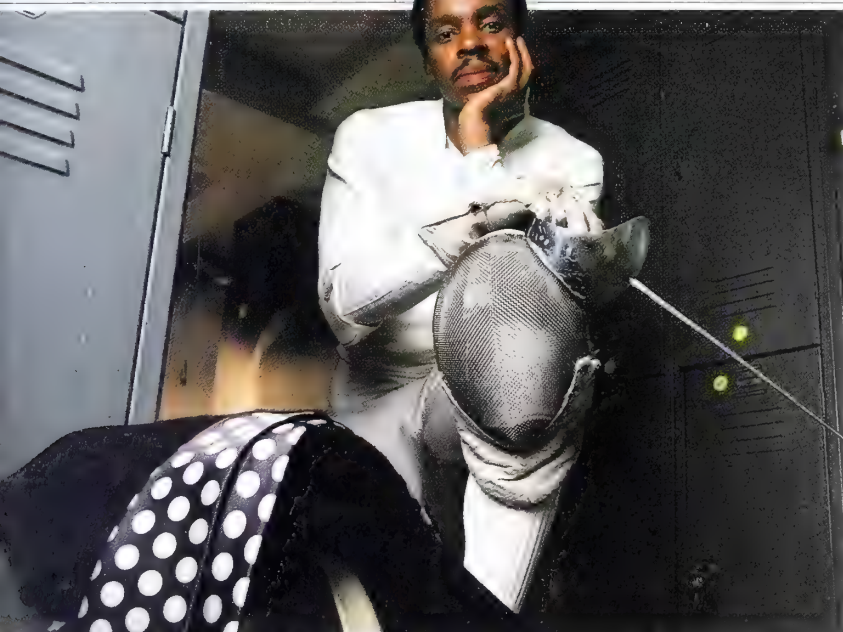
The jocks can't goof off on the job or in training, and employers are under no obligation to keep them working if they do. But that's rarely a problem. Says Roy Chapman, college relations manager for J.C. Penney Co.: "They don't work many hours, so when they're here, they work harder."

FREE PUBLICITY. Indeed, the dedication that Olympic-caliber athletes possess is a big plus for many OJOP employers. Not to mention their coworkers. Other employees "are excited about having them here. They're rooting for them," says Charlie G. DiMercurio, a project manager for Anheuser-Busch Cos., which has employed the most OJOP athletes since the program was adopted by the Olympic Committee in 1984 (table).

Employers do get some perks from the program, including free publicity and passes to some Olympic events. But they insist they're driven mostly by the Olympic spirit. Most of the athletes agree. Lawyer Mary C. Mazzio, 30, approached her Boston firm, Brown, Rudnick, Freed & Gesmer, about her desire to compete for the 1992 U.S. Olympic Rowing Team. The law firm joined OJOP and has given her an eight-month paid leave of absence to train. If she makes the team at the Olympic trials in May, she won't return to work until August. "I don't know how I would make it without their support," says Mazzio.

OJOP employers would say that nothing could top that kind of heartfelt gratitude. But then again, a gold, silver, or bronze medal certainly would make a handsome paperweight.

By Stephanie Anderson Forest in Dallas, with Julia Flynn Siler in Chicago



FENCER LOFTON: EN GARDE AT ERNST & YOUNG

Olympic Committee's Olympic Job Opportunities Program, Lofton secured a job in Ernst & Young's marketing department. The New York-based accounting firm is one of about 150 U.S. companies that have put 378 Olympic-caliber athletes to work through the Olympic Opportunities Program since its inception in 1977. Notable OJOP graduates include World Heavyweight Champion Evander Holyfield and track-and-field gold medalists Florence Griffith-Joyner and Jackie Joyner-Kersey. By

GOLD-MEDAL EMPLOYERS	
Companies listing the most Olympic athletes since 1976	
Company	
ANHEUSER-BUSCH	65
J.C. PENNEY	34
FIRST INTERSTATE BANCORP	21
WYNN	12
AIRTRAVEL CLUB OF SOUTHERN CALIFORNIA	9
ALL OTHERS: 1-10	

SIEMENS

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For more information, write for *Siemens '92*. Box 8003U, Trenton, NJ 08650

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LOUIS SULLIVAN COMES OUT OF HIS FOXHOLE

Can the low-profile HHS Secretary sell Bush's health reform plan?

There's one thing that Health & Human Services Secretary Louis W. Sullivan learned early on, it's to keep his head down. Even before his confirmation, the White House forced him to drop his pro-choice stance on abortion. Then, when he said he favored giving clean needles to drug addicts, it pressured him to recant. Later, Sullivan announced that the Administration supported a massive Medicare catastrophic insurance bill, only to be retracted hours later. For Washington's cognoscenti, it was all the proof they needed. The nation's top doctor was the political savvy of a Paulsen and no control over policy.

Sullivan has come a long way since he took over the \$10 billion department five years ago. By picking his fights carefully, he has earned praise for expanding services to the poor and for crusades against the tobacco industry—worthy initiatives, to be sure, but small victories at best.

Now, the 58-year-old hematologist in Atlanta no longer has the luxury of a low profile and narrow niches. He is about to take center stage on what will be a pivotal issue during the Presidential campaign: health care reform. President Bush was to unveil his health plan in Cleveland on Feb. 6, and he picked Sullivan as point man to sell the proposal. The HHS Secretary will appear on talk shows, make speeches, debate Democrats, and try to soothe worried physicians and lawmakers.

THE TIME. This lead role is Sullivan's biggest challenge yet—and an opportunity to burnish his reputation. Until this year, he was under the thumb of heavyweights in the White House, the Office of Management & Budget on major issues such as family plan-

ning and health care reform. But now John H. Sununu, who as White House Chief of Staff held an iron grip on domestic issues, is gone. And Budget Director Richard G. Darman's star no longer burns as bright. "This is Sullivan's big test," says one Administration official. "How he performs will deter-

mine whether the past three years have paid off as a first-class education or whether he has flunked."

From the beginning of his tenure, Sullivan was a rare commodity in Washington. A personal friend of Barbara Bush, he brought with him a passion for helping the poor and a reputation for integrity. But the founder and former president of the predominantly black More-

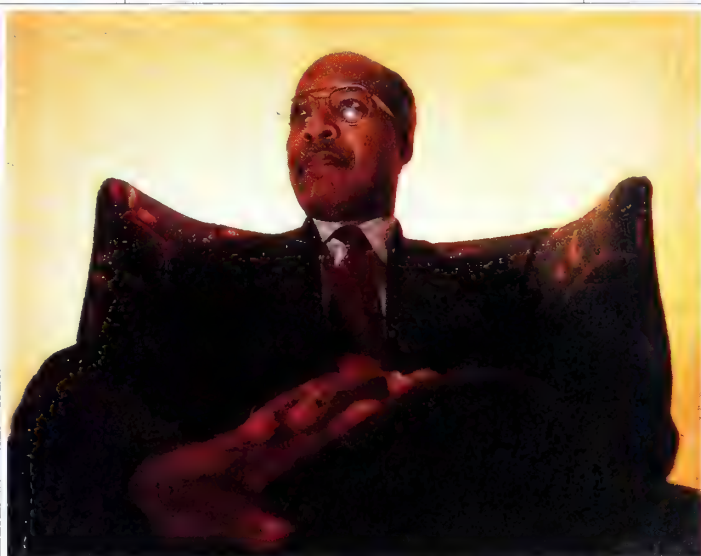
house School of Medicine in Atlanta was unprepared for the cutthroat battles he would have to wage to assert control over the divisive issues facing his sprawling department. After his rocky start, Sullivan seemed resigned to navigate within the constraints imposed by White House ideologues and the budget deficit. The HHS Secretary decided to go with his strengths and concentrate on areas where he thought he could have an impact. "Lou Sullivan is a man who looked at the landscape and picked his shots," says a Capitol Hill staffer. "He doesn't have to engage in battle on every issue."

Indeed, he was one of the few Cabinet members who worked tirelessly to help Bush keep his promise of a kinder, gentler America. Sullivan has used his bully pulpit to promote preventive health measures. And he has raised the visibility within HHS of minority health issues and the social problems of black males—areas neglected in the past. Sullivan "has done a fantastic job," says Deborah Steelman, a lawyer who advises Bush on domestic issues.

POSTAL POLITICS. In an era of tightfisted federal budgets, Sullivan also has been able to expand health services for the poor, such as community health centers and programs to increase the number of physicians in underserved areas. He won plaudits for his crusades against the sponsorship of women's sporting events by tobacco companies and for the "slick and sinister" marketing of cigarettes to children. He has hired strong, well-respected managers to run his agencies (table). And he has used his position as the only black Cabinet member to influence Administration policy on civil rights issues.

Yet if there is one policy arena that an HHS Secretary should lay claim to, it's health care reform. And here, while Sullivan has made inroads, Darman has held sway—with what may be disastrous results for the Administration.

Sullivan realized two years ago that the Bush Administration couldn't ignore the rising public clamor for reform much longer. But Sununu opposed any overhaul and refused to give Sullivan a chance even to discuss his views with Bush. So Sullivan began to deliver a



WITH SUNUNU OUT AND DARMAN WEAKENED, SULLIVAN HAS AN OPENING

FOR SULLIVAN, A MIXED BILL OF HEALTH

HIS STRENGTHS

- ▶ Hires strong managers
- ▶ Took a high-profile stand against tobacco sales to minorities and children
- ▶ Won new dollars for public health programs
- ▶ Raised the status of minority health issues

HIS WEAKNESSES

- ▶ Doesn't have full control of his own staff
- ▶ Opposed tobacco ads and exports, then refused to back federal action
- ▶ Pushed health care reform but failed to develop a detailed plan



Alabama is inside the continental United States. In fact, it is located in the center of the most desirable relocation region in the country.



You will still see a lot of Alabamians going without shoes—mostly on the sandy white beaches of Gulf Shores.



While you might think of overalls as the clothing of choice, most of us prefer blue or white shirts. Alabama's traditional labor force has shifted from farming to more service and high-tech industries.

All work and no play wouldn't make sense in Alabama. Enjoying an old rocker, a wide porch, and some good conversation is still a favorite pastime here.

Alabama Isn't Where You Think It Is.



Football rivalries here are as strong as ever. But to colleges and universities, helping Alabama to maintain a competitive edge, as well, offering research capabilities in areas like automotive manufacturing, magnetic information, and food production.



If you think we too moonshine, you're one right. But it isn't the moonshine you think. It has played a leading role in developing the space program. In fact, Alabama has seven astronauts—more than any other state.



Some say you're moving to the edge of the world when you move to Alabama. In some parts of the state, you could say that's true; the southern ridge of the Appalachians offers some spectacular views.

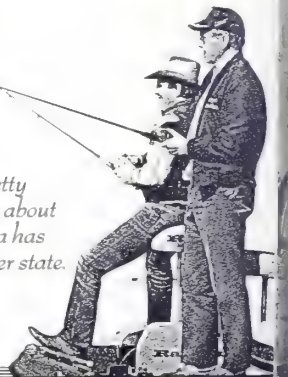
The fiddle may be the first musical instrument you would connect with Alabama. And you'll still see a lot of them in the state's many symphony orchestras. (Although they refer to them as violins.)



Practicing our aim is still a favorite pastime for many Alabamians. In fact, our prowess as sharpshooters was proven in the Gulf War by the Patriot Missile, which originated in Alabama.

Yes, we do a lot of fishing here. And some pretty important people, including the President, know about our beautiful lakes and rivers. In fact, Alabama has more miles of navigable waterways than any other state.

We use them for shipping, too.





Some are convinced the bouffant is still alive and well in Alabama. But, like the rest of the country, we opted for more up-to-date styles years ago.



Sorry, that's a different state entirely.



A revered folk craft from our past, the attention to detail and intricate handwork used in our quilts has been passed down to newer generations and applied in fields like electronics for assembling circuit boards.



So you think our workers come out of trailers. Some of our best actually do. Alabama Industrial Development Training, a free service to industry, has the nation's largest fleet of mobile training units. Some businesses have traveled from as far away as Singapore and Japan to employ AIDT-trained workers.



Yes, you'll probably see a few cows. But we don't just settle for raising cattle. Researchers at Auburn University have developed a whole line of leaner foods like the McLean burger, a product McDonald's is slipping over.

We're still early risers. In fact, our towns are known for our strong electric alarms.

Known for its smokestacks, Birmingham has diversified in recent years into a service-oriented economy, with services as our main industry. Steel is still important to our economy, but modern state-of-the-art mills contrast sharply with the old. In fact, one old mill's place is now a museum.



If Alabama is nowhere near what you thought, maybe there's more you should know about our state. For instance, what makes it a great place to live and a great place to work. What makes companies like JVC America decide to make their headquarters here. Why GE has made its largest single capital investment, close to \$1 billion, in Alabama. And why people like one Connecticut family, who thought they were being "sent to hell" when transferred here, now like it so much, they wouldn't think of leaving. If your company is considering expansion or relocation, consider Alabama. You just might find it's pretty close to ideal.

ALABAMA

Government

series of policy speeches laying out the direction an Administration health policy should take. He also circumvented Sununu's control in August by mailing Bush a letter to his private post office box in Maine, imploring him to move on the matter. Bush's final plan is expected to include many of the proposals Sullivan had been pushing. "We have had a major—no, the major—impact," Sullivan told *BUSINESS WEEK*.

'SIXTH FLOOR SWAMP.' But officials close to the deliberations say that though Sullivan laid the groundwork, he never came up with a final, detailed plan. Darman rushed in to fill the vacuum. According to sources, Darman is running the meetings that Sullivan and other top officials attend and is coordinating the work of various agencies. "Sullivan himself could have had everything ready by now," says one official involved in the process. "He could have costed it out and made sure everything matched."

Darman's control has not served the Administration well, however. After an uproar from GOP lawmakers, the White House at the last minute was forced to delete references in its 1993 budget to a proposal that would have taxed the

health benefits of affluent families—a proposal Sullivan had opposed internally.

Health care reform is only the most visible evidence of Sullivan's inability to control his agency's issues. Last spring, when he came up with a pet program to combat infant mortality, Darman refused to give him new money, forcing HHS to take funds from other poverty and health programs. It was Sununu,

When Sullivan came up with a pet program to combat infant mortality, Darman refused to provide any money for it

not Sullivan, who negotiated with family-planning groups to reach a compromise that would overturn a U.S. Supreme Court ruling and allow clinics funded by HHS to counsel patients on abortion. Talks failed, and Bush vetoed the bill.

Last October, Sullivan announced that the White House would veto a Democratic bill that would have given the

Food & Drug Administration new enforcement powers. HHS had earlier penned a similar bill but backed off after industry lobbyists found a sympathetic ear at the Council of Competitiveness. White House group headed by Vice President Dan Quayle.

Some Administration insiders complain that the HHS chief doesn't even have full control over his own staff. Decisions he makes sometimes get bogged down in the "sixth floor swamp." For instance, last year, Sullivan verbally signed off on a controversial regulation changing the way Medicare reviews new technology to determine if it should cover its use. But aides have yet to send the rule to the OMB for review, sources say.

Given the White House's determination to dominate domestic policy, Sullivan's prospects for success may have been limited from the start. But now, with health care reform propelling him into the limelight, he has a chance to prove his mettle. The next few months could demonstrate whether the kind doctor from Atlanta will be a force to be reckoned with or just a nice guy with good intentions.

By Susan B. Garland, with John C. ... in Washington

NEW AUDI TAKES AIM AT LEXUS AND ACURA.



In order to stand out in the highly competitive American car market, Audi has invested millions of dollars in redesigning and rethinking every automobile in its line-up, starting with the all-new Audi 100 V-6. At a base price of only \$29,900*, it's clear Audi is not content to let Lexus and Acura corner the market. Indeed, Audi believes the new 100 will break from the pack, being the first new automobile in its class to offer German engineering with Japanese pricing. With front-wheel drive, driver's side air bag, and ABS standard on every Audi 100, Japanese car buyers may find the new Audi too good a value to ignore.

—KARL TREUTLER, DETROIT

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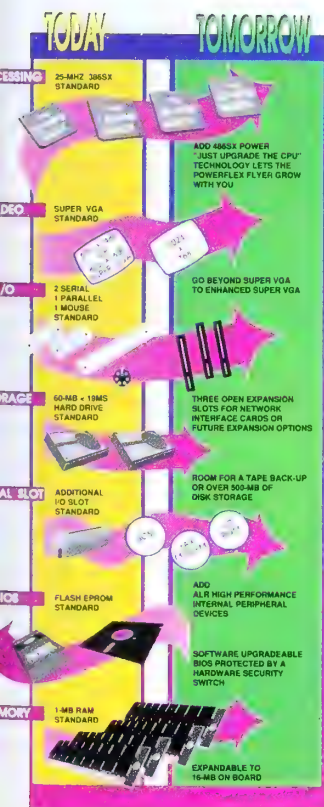


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EVERYTHING FROM IPOs TO S-E-X

CNBC is trying to spice up its image—and shore up its ratings

There were moments when, if you closed your eyes, you'd have sworn that you had tuned in to *Geraldo*. Tabloid newsmen Richard Kaplan was offering a cable-TV audience fresh details about Presidential candidate Bill Clinton's alleged womanizing. His tidbits weren't all that dramatic. Kaplan, the editor of *Star* magazine, was giving the Jan. 30 interview mostly to peddle a story that ran three days later in his tabloid.

More interesting than the message was the medium: Kaplan was appearing as a guest on CNBC, a 24-hour cable network known more for its stock quotes than salacious gossip. "We do a lot of things that are eye-opening," says Tom Rogers, president of NBC Inc.'s cable division, owner of CNBC.

That may come as a surprise to many viewers who still know CNBC as the network with the stock tape spooling across the bottom of the TV screen. But CNBC is recasting its image from a nuts-and-bolts financial-news channel into a network offering information on everything from initial public offerings to interpersonal relationships. On Mar. 9, CNBC will roll out a \$20 million marketing campaign to drive home its jazzier image. The ads will even plug a new talk show that deals with human sexuality.

FUZZY FOCUS. It's a long way from the old CNBC, a no-frills network whose full name, Consumer News & Business Channel, hardly raised pulse rates. The three-year-old network began changing its image last May when it bought and absorbed its prime competitor, Financial News Network Inc. CNBC won FNN after a spirited bidding war with Dow Jones & Co. and Westinghouse Broadcasting Inc. that drove the

price up to \$154 million. The deal instantly made CNBC a major player: The network picked up most of FNN's 35 million households. Now reaching a potential 45.3 million households, CNBC is only 12.7 million behind Cable News Network.

But if the FNN deal brought CNBC access to a bigger audience, it also further muddled the network's identity. Already



MARKETING DIRECTOR VANDERLIP, PRESIDENT BARBER: IDENTITY CRISIS

an odd mix of business coverage and lifestyle programming, CNBC has been struggling to integrate FNN's hard-news focus. "We haven't created a true umbrella image for CNBC," concedes network President Albert F. Barber.

So CNBC hired BBDO Worldwide to create a new logo and ads that play the network up as a source for all sorts of news and information. Marketing Director Caroline Vanderlip says the new logo also stresses the NBC in CNBC. The old logo, she says, made some viewers think CNBC was an offshoot of CNN.

Barber hopes this positioning will broaden CNBC's appeal beyond brokers and executives. CNBC's daytime

programs draw a respectable 0.3 rating from A. C. Nielsen Co. And CNBC's actual daytime viewership is higher, says Nielsen. Problem is, CNBC has yet figured out how to keep those viewers watching once they get home. In prime time, CNBC's rating falls to a try 0.1. By contrast, CNN's 9 p.m. show, *Larry King Live*, routinely draws a 0.8 and sometimes cracks 1.0.

NO STAR. CNBC's Lilliputian ratings have prevented it from attracting lucrative prime-time advertising. Ninety percent of the network's ad dollars come in daytime, when financial-services marketers such as Fidelity Investments take advantage of low airtime prices to ply viewers with spots urging them to dial toll-free numbers. Barry Fischer, a media buyer at Wells Rich Greene/BDDP, says the

network must upgrade its prime-time programs to attract more blue-chip advertisers.

The trouble is, CNBC doesn't have a marquee attraction on the order of Larry King. Its main prime-time offering is *The Real Story*, a two-hour talk show featuring personalities such as John McLaughlin and Jack Anderson. Cable-industry observers say the show has improved, but some critics say it isn't strong enough to anchor the prime-time schedule.

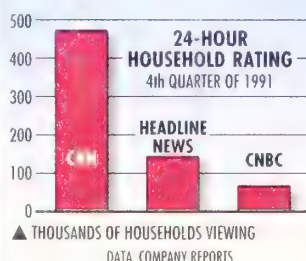
Next month, to coincide with the marketing campaign, CNBC will rearrange the prime-time lineup, beams from its studios in Fort Lee, N.J. *The Real Story* will concentrate

harder news issues, while CNBC will launch two new programs: *Real Life* and *Real Personal*. *Real Life* will offer softer lifestyle coverage, and *Real Personal* will feature talk about relationships. Barber says it won't be a CNBC version of *20/20 Connection*. But he adds: "People from Kinsey Institute could be on the show."

Plenty is riding on such decisions. Larry Gerbrandt, a cable analyst at J. P. Kagan Associates, estimates that CNBC has run up at least \$60 million in operating losses from 1989 through 1991, on top of the \$154 million for FNN. Barber says CNBC will break even this year on a cash-flow basis. And he predicts the network will recoup its FNN investment within five years. To meet that goal, CNBC will have to offer more than just a peek at the *Star*'s next scoop.

By Mark Landler in Fort Lee, N.J., and Chuck Hawkins in Atlanta

STILL IN THIRD

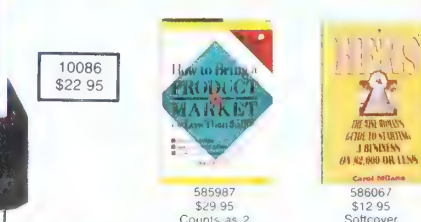
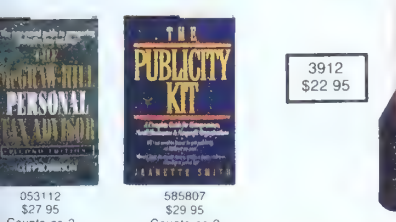
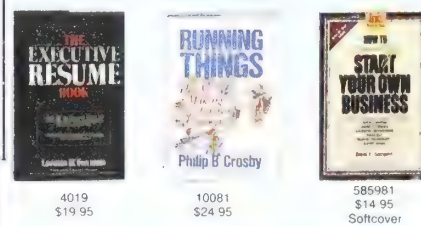
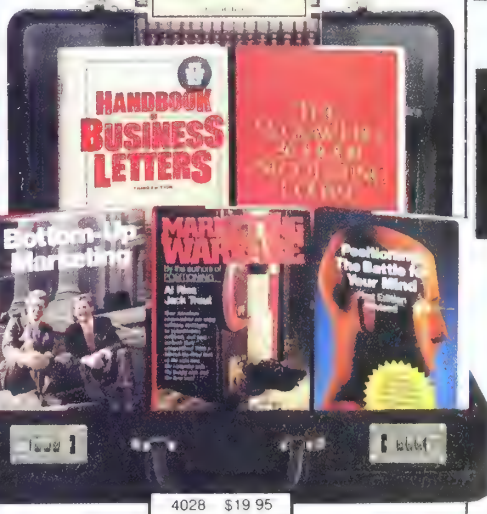
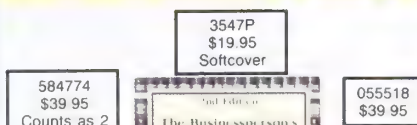


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ROOM WITH A VIEW: BW'S LEWYN (LEFT) PREPARES FOR LANDING



EDITED BY AMY DUNKIN

Leisure

THE WRIGHT STUFF: HOW TO EARN YOUR WINGS

I've loved airplanes since I was a kid. Even today, my idea of a good time is to eat at a restaurant near Washington National Airport that provides a perfect view of planes taking off and landing. So, when a friend suggested that I join him for flying lessons, it didn't take a whole lot of arm-twisting for

me to give him a thumbs-up.

Just before Christmas, we joined the ranks of the 83,000 aspiring pilots who pick up the hobby each year. Many of them, like me, are professional men in their 30s. Like many beginners, I approached the task with a mixture of excitement and trepidation. After all, flying small planes doesn't

have the reputation of being the safest of hobbies, even though statistics show that it's a lot less dangerous than driving a car.

CLOUD-WORTHY. Getting a basic private license to pilot a small single-engine plane can cost \$2,000 to \$5,000, depending on where you live. The fees include the cost of air-

craft rental, flight instruction, ground school, insurance, and books. You can spend more than \$10,000 if you want to get an instrument flight rating. That allows you to fly in bad weather, when you may rely on instruments to land.

Obtaining a private license usually takes six to nine months. You need 35 to



INFORMATION SOURCES FOR BUDDING PILOTS

BOOKS

Aviation Fundamentals, Jeppesen Sanderson, Englewood, Co., \$32.95

FAA's Pilot's Handbook of Aeronautical Knowledge, Air Safety Foundation, Frederick, Md., 800 638-3101, \$10.75

GROUND SCHOOL VIDEOS

King Schools, San Diego, 800 854-1001, \$169 for private-pilot course to pass FAA written exam

Sporty's Pilot Shop, Batavia, Ohio, 800 LIFTOFF, \$243 for course

MONTHLY MAGAZINES

AOPA Pilot, Aircraft Owners & Pilots Assn., 800 872-2672, \$39/year

Flying, Hachette Magazines, 800 678-0797, \$24/year

Private Pilot, Fancy Publications, 303 447-9330, \$21.97/year

DATA BW

of flight time. After light instructor accredit—and you pass a physical check your eyes and health—you get to fly. Then, you must pass a test with an examiner at the Federal Aviation Administration and a 50-question multiple-choice test.

At a school called the Flight Training Center in Washington, Md., near Andrews Air Force Base, you can get information by dialing the nonprofit Federal Aviation Task Force (800-22-6359) or the Aircraft Owners & Pilots Assn. (800-22-6359). Visit two or three schools before signing up to make sure you find an instructor you like. You'll be spending a lot of time together in those quarters.

It's a good idea to attend a ground school, or a course on your own, while you take flight lessons. The ground school, which costs about \$200 for roughly 20 hours of class time, will reinforce your flying instruction. Another option is ground school videotapes (table).

GETTING START. Once you join a school, you'll open an account for flight time. You often get an introductory flight at a discount, perhaps for \$75 for a regular lesson. You can pay as you go or get a discount by paying in advance. Some groups, such as the FAA, will lend you up to \$500 with no collateral to take forward flight lessons. The interest rate is 14%.

Don't be surprised if you get sick the first time out. Flying is a lot more than just the engine noise and the engine noise is a lot more than just a few minutes. That queasy feeling goes away. The first few flights give you a feel for the controls. My first lesson was how to taxi on a runway. Your instinct is to turn the wheel, which looks like a steering wheel and banks and turns the plane while you're in the air. But when you're on the ground, you steer the

plane by applying pressure to rudder pedals on the floor, which control the direction of the wheels.

After about 25 hours of flight time, I become confident enough to wonder about owning a plane. But most people buy a plane only if they plan to fly at least 200 to 300 hours a year, which is a lot for beginners. For most new

pilots, renting makes more sense. Rental prices range from \$35 per flight hour for a simple two-seat aircraft to \$40 to \$60 for a four-seater.

Another option is to join a flying club, which is the equivalent of vacation time-sharing. Typically, 5 to 10 people co-own the plane. You pay an initiation fee of \$200 to \$2,000, depending on the equi-

ty interest you take. There may be monthly dues of \$15 to \$175, which cover the hangar, insurance, and maintenance fees.

I'll probably opt for a flying club when I get my license. Meanwhile, I'm trying to summon up the courage to take my first solo flight. For now, I'll be happy just to make it through that. *Mark Lewyn*

Tax Tips

A NEW PITFALL FOR THOSE WHO PAY IN ADVANCE



Does 1992 look like it will be a better year for you than 1991? If so, and you pay estimated income taxes, Congress has come up with something that could turn your happiness into a headache. It's a new law that will require many unsuspecting Americans to fork over more taxes in advance.

The change affects a much-used "safe harbor" proviso: No matter how much tax you'll end up owing, you're safe from underpayment penalties if your quarterly estimated installments and withholding equal 100% of your previous year's tax.

But last November, in order to pull in additional reve-

nue to pay long-term unemployment benefits, Congress closed that safe harbor to a new class of taxpayers. Instead, these people will have to make sure that their quarterly cover 90% of their 1992 tax bill—or they'll face a penalty of roughly 10% on any shortfall come filing time in April, 1993.

When should you start worrying that you can't use the 100% safe harbor rule? If it looks as if your adjusted gross income in 1992 will top \$75,000 and will also exceed last year's AGI by more than \$40,000 (on joint and single returns alike).

Especially if the economy improves, "many people may

be surprised to find themselves under this new restriction," says *Bender's Federal Tax Week*. All it might take is for one spouse to land a good job after having been out of work last year, while the other continues to have self-employment income that requires quarterly estimated payments. Selling some stocks at a big profit could spring the trap, too.

FEAST OR FAMINE. Generally, the rules "will catch people who aren't rich but whose income bounces around a lot," warns Wally Head, personal financial-planning chief at accounting firm Arthur Andersen in Chicago. Among them: real estate and insurance salespeople, attorneys working for contingency fees, investment bankers who get feast-or-famine bonuses, business owners, and employees who get a lump-sum settlement on leaving a job.

One exception is if the bulge in your AGI is the result of selling your home. Another is if you haven't paid estimated taxes in any of the past three years. But even the latter won't get you off the hook if you've been hit with any underpayment penalties in that period. And there are several other complex exceptions to check out with your tax adviser, especially if you're involved in limited partnerships.

If there's no way out, Head suggests "staying on the safe side" by keeping your payments above 90% of your estimated tax. You're still allowed to underpay your first-quarter installment on Apr. 15. But then, you'd face a catch-up payment with the second-quarter installment on June 15. *Dick Janssen*

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Autos

OOMPH, ELEGANCE, SILENCE: SURPRISE! IT'S A CAMRY



THE 1992 TOYOTA CAMRY: TAKING AIM AT THE HONDA ACCORD

You might call it Toyota's bargain luxury car. You get in, crank the starter, and there it is—the almost eerie hush that has become the hallmark of the company's Lexus models.

But this is no Lexus. It's the Toyota Camry, which for 1992 has grown from a boxy, practical compact into a quieter, more stylish midsize car. It's longer, taller, and wider than its predecessor—which

translates into 15% more interior space and pits it grill-to-grill against the Honda Accord and the Ford Taurus, America's two most-popular cars.

It's no secret that Toyota wants to unseat the Accord as the best-seller. And the new Camry is a car that could do it. An optional V-6 engine has more oomph than the Taurus V-6 and is quieter to boot. And shifts of the automatic transmission are imperceptible—something neither competitor can boast.

The Camry shares the same basic chassis, engine, and suspension with the Lexus ES 300 sedan, introduced last fall.

More important, Toyota engineers have made extensive use of vibration- and sound-deadening techniques developed for the Lexus, such as steel-asphalt-steel floor and wheelwell panels and fluid-filled engine mounts. They've also halved the tolerances on the fit of body panels, to 1.5 millimeters. Among other things,

that lessens wind noise.

Technology doesn't come cheap. Sticker prices are more than 10%, starting at \$14,368 and running up to \$20,000 for the top-of-the-line XLE model. Some of that difference washes out with options-turned-standard, such as air conditioning and body-colored bumpers, and the inclusion of driver's-side air bags. Besides, even after popping in optional leather seats and antilock brakes, you can expect to save about five grand over a comparably equipped Lexus ES 300.

MORE TO COME. And you'll find a superb, elegant car. It's as quiet as sporty as its Lexus brethren. But after all, the Camry is a family sedan. Toyota plans to extend the Camry line both ways, with sportier SE version coming this month and a roomy wagon later this spring.

When Lexus was unveiled 2½ years ago, its engineers promised that the innovation would trickle down to the Toyota brand. The Camry proves they weren't kidding. *Larry Armstrong*

Many investors who depend on the double-digit interest from bonds they bought 5 to 10 years ago got a nasty shock recently when issuers called the bonds before maturity to refinance their debt at lower rates. Now, chastened yield-seekers know they should study the fine print in every bond prospectus for call provisions that can cut their income.

An early call isn't always bad news, however. In fact, callable bonds can yield handsome returns. That's because what you earn on a bond depends not only on its coupon but on the capital gain or loss you realize when you sell. Callable bonds are usually cheaper than comparable-quality noncallables. And issuers often pay bondholders a premium when they call their securities.

Take a 20-year, \$1,000 bond paying 10.5% that you bought at its \$1,000 face value in 1989 and is callable in

Smart Money

WHY AN EARLY CALL NEEDN'T DISTURB YOUR SLEEP

1994. To compensate you somewhat for your income loss, the issuer will buy the bond back at, say, \$1,050 (in bondspeak, it's quoted as 105). In addition to your \$105 annual interest payments, you will have earned \$10 a year in capital gain, for an effective yield of 11%.

This year, the market may value your bond even higher

than the call price, since its 10.5% rate stands out in the current environment. If your bond is trading at \$1,100, you'll get a 13.8% yield by selling now, not subtracting taxes or commissions.

For investors not already holding high-coupon bonds, some bonds callable in the next couple of years can be excellent short-term plays,

says Thomas Steffanci, director of fixed income at Fidelity Investments. Say you buy the bond described above now, at its premium of 110. When the bond is called in 1994 at 105, your two years of 10.5% interest will offset your capital loss, for a total return of 7.2%. "The idea is that over two years, you not only do better than in the money market, but better than you would with bonds trading at par," says Steffanci. Why? Newly issued investment-grade (S&P A or better) two-year bonds are yielding about 6%, and 10-year Treasuries pay 5%.

Patricia Zlotin, executive vice-president at Massachusetts Financial Services, advises investors to stick to bonds callable in the next two years. Further out, it's more likely that interest rates will rise, depressing your bonds' market value and making an early call so probable. *Joan W...*

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*Yields will be higher if you reinvest your interest. DATA: MASSACHUSETTS FINANCIAL SERVICES INC.

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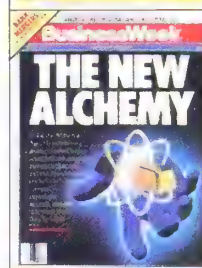


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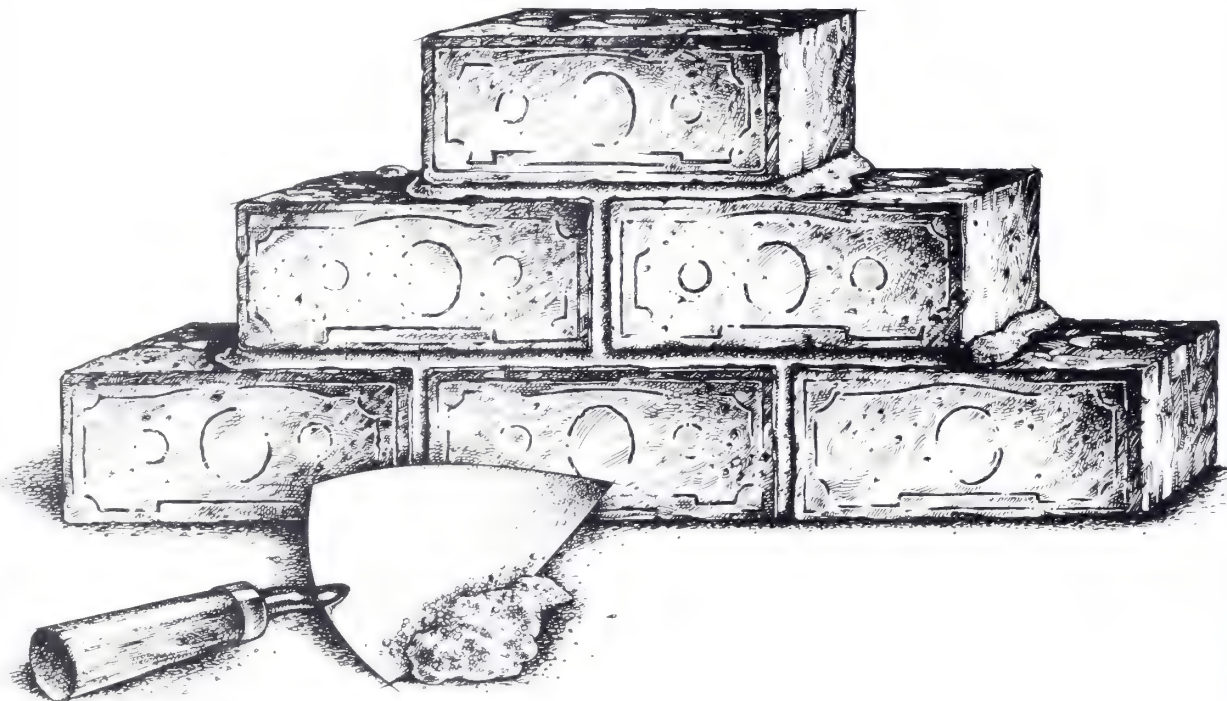
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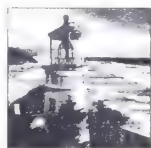
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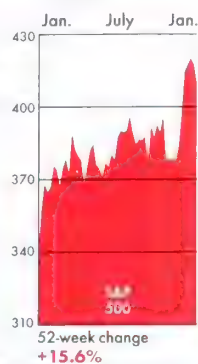
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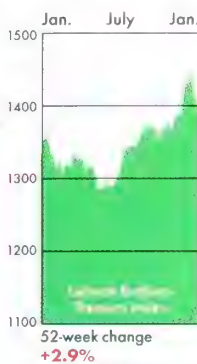
STOCKS

ally upbeat week in the fi-
markets. The Dow Jones in-
verage climbed 39 points
4, closing at a record
encouraging auto-sales fig-
e the market a nudge, as
oved bond prices. The
ome markets were
by Fed Chairman Alan
an, who told Congress
ed will cut rates further if
to help the economy. But
ets fell 15 points on Feb.
appointing earnings news
on Kodak pushed the in-
lower.

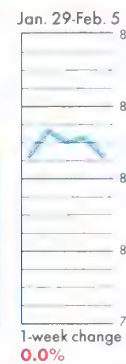
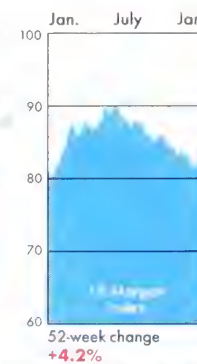
STOCKS



BONDS



THE DOLLAR



MARKET ANALYSIS

	Latest	% change Week	% change 52-week
STOCKS			
INDUSTRIALS	3257.6	1.0	15.1
COMPANIES (Russell 1000)	220.5	1.1	18.1
COMPANIES (Russell 2000)	209.3	2.7	37.5
COMPANIES (Russell 3000)	235.7	1.2	19.2
FINANCIAL STOCKS			
(FINANCIAL TIMES 100)	2547.1	0.0	16.1
(NIKKEI INDEX)	21,936.4	2.7	-8.4
(TSE COMPOSITE)	3605.9	0.2	5.3

FUNDAMENTALS

	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	3.93%	3.92%	6.1%
30-YEAR TREASURY BOND YIELD	7.73%	7.76%	8.0%
S&P 500 DIVIDEND YIELD	2.95%	2.94%	3.4%
S&P 500 PRICE/EARNINGS RATIO	24.4	23.5	16.1

TECHNICAL INDICATORS

	Latest	Week ago	Reading
S&P 500 26-week moving average	393.3	392.4	Positive
Stocks above 26-week moving average	71.0%	71.4%	Neutral
Speculative sentiment: Put/call ratio	0.36	0.37	Neutral
Insider sentiment: Vickers sell/buy ratio	1.56	1.51	Positive

INDUSTRY GROUPS

WEEK LEADERS		Strongest stock in group	
	% change 4-week 52-week		% change 4-week 52-week Price
TOOL	20.1 25.7	ACME CLEVELAND	35.6 81.8 10
DUCTORS	18.9 34.5	INTEL	27.2 33.2 62 5/8
BUILDING	18.5 86.1	KAUFMAN & BROAD HOME	31.5 106.3 24 1/2
AINMENT	14.9 18.4	WALT DISNEY	18.2 27.7 141 3/4
WARE AND TOOLS	10.9 40.3	BLACK & DECKER	26.1 103.4 22 3/8
WEEK LAGGARDS		Weakest stock in group	
	% change 4-week 52-week		% change 4-week 52-week Price
AL GAS DISTRIBUTION	-8.1 -18.7	ARKLA	-16.8 -45.5 9 7/8
AND GLASS CONTAINERS	-7.8 29.6	CROWN CORK & SEAL	-8.2 28.8 82 5/8
AL PRODUCTS AND SUPPLIES	-7.2 43.5	BIOMET	-17.4 98.0 25
INE INSURERS	-6.3 10.9	CNA FINANCIAL	-13.4 14.6 86 1/2
NAL TELEPHONE COMPANIES	-6.1 1.0	GTE	-8.4 6.8 31 1/4

MUTUAL FUNDS

5		LAGGARDS	
4-week total return	%	4-week total return	%
DE HUSON GROWTH	18.5	STRATEGIC GOLD/MINERALS	-13.6
LD AGGRESSIVE GROWTH	15.0	FIDELITY SELECT ENERGY	-6.0
ENT SPECULATOR LEVERAGED	15.0	FINANCIAL STRATEGIC ENERGY	-5.7
52-week total return	%	52-week total return	%
HEIMER GLOBAL BIO-TECH	111.3	STRATEGIC GOLD/MINERALS	-28.0
CAN HERITAGE	107.6	FIDELITY SELECT ENERGY SERVICE	-20.6
VEIS EMERGING GROWTH	76.2	STRATEGIC INVESTMENTS	-12.8



RELATIVE PORTFOLIOS

Amounts at the present \$10,000 one year ago portfolio ages indicate total returns	U. S. stocks	Foreign stocks	Treasury bonds	Money market fund	Gold
	\$12,254	\$11,515	\$11,396	\$10,495	\$9,787
	-0.27%	+1.52%	-1.15%	+0.08%	-0.07%

This page is as of market close Wednesday, Feb. 5, 1992, unless otherwise indicated. Funds include S&P 500 companies only; performance and share prices are as of market close.

Feb. 4. Mutual fund returns are as of Jan. 31. Relative portfolios are valued as of Feb. 4. A more detailed explanation of this page is available on request.

NEW GERMANY, NEW BALL GAME

It has always been difficult for a nation to come to terms with diminished power. Yet that is one result in the U.S. of the West's victory over the Soviet empire. The threat of nuclear annihilation has ended, and with it America's leverage over its allies. The economic clout of the U.S. doesn't match the clout of the old nuclear umbrella.

Nowhere is this suddenly skewed relationship more evident than in our relations with Japan and—even more strikingly—reunited Germany. The states that became major economic powers under our nuclear shield have already begun asserting their economic clout by asking for a stronger voice in the U.N. Security Council, the World Bank, and the International Monetary Fund.

Americans are most conscious of the ongoing change in relations with Japan. But German assertiveness has gone even further. Not that the Germans are all that sure how to use their newfound power (page 50). They want to help Europe become more competitive and more unified. Yet when the Germans attempt to reshape Europe in the image they deem rational, they are criticized for overstepping their bounds—especially in Paris, but elsewhere, too.

So it's no surprise that Washington also finds Germany's emergence as a full-fledged European power a mixed blessing. There are clearly positive dimensions: A strong German economy is a major market for U.S. goods. The Americans have a trade surplus with Germany—and Europe. Further, thousands of U.S. companies ranging from General Motors Corp. and IBM to tiny makers of parts have growing market shares in Germany. Some companies are using German partners or subsidiaries to help strengthen their presence throughout Europe, both Eastern and Western. In that sense, the Americans are far more tightly woven into the

economic fabric of Germany than they ever will be in Japan.

But German self-direction still makes Washington uncomfortable. At a time when U.S. fiscal policy depends on low interest rates, it chafes that the Germans won't budge down the high rates they're using against inflationary pressures. And the State Dept. is vexed that Bonn bulldozed the European Community and Washington into recognizing Croatia and Slovenia, undermining the Administration's instinct to put off a decision. Other irritants include German determination to protect its inefficient but politically potent farmers and pointed German proposals that the U.S. commit billions for struggling peoples in the East.

Finally, let's face it: The Germans have an image problem that is not going to go away—in spite of Bonn's excellent record on human rights, its sensitivity to the burden of its own history, and its unmatched track record as a stable member of the Atlantic Alliance. Whatever they do, the stains of the Holocaust and Nazi aggression will remain.

That being said, Washington must work hard to remain fully engaged with the Germans, despite the ambivalent feelings each has about the other. There will be more times when we don't agree with the Germans. There also will be times when we are irritated to find that the U.S. vision of Europe doesn't mesh with the German view, as the German economic powerhouse is increasingly in Europe's driver's seat. But despite those frustrations, it's important to remember that the Washington connection is extremely important to the Germans. It adds to their respectability, legitimacy in Europe and helps salve century-old European animosities. Through a combination of economic, diplomatic and military means, Washington must continue its spectacularly successful post-World War II engagement.

HOW NOT TO BUILD A RECOVERY

President Bush's economic plan, as outlined in the Jan. 28 State of the Union message, is 180 degrees off course. It amounts to inviting consumers to go on a spending spree while mounting a frontal attack on long-term savings. It reinstates the same real estate tax breaks that led to massive overbuilding. Yet it allots relatively short shrift to rebuilding America's industrial structure and enhancing the skills it needs to compete internationally.

America's personal savings rate is one of the lowest in the industrialized world. But savings are the reservoir into which banks, pension funds, and insurers dip for investments. Higher savings equal lower interest rates. And we're not just talking about brick and mortar: American R&D outlays are growing at a slower rate, and investment in our educational system continues to shortchange our children.

Yet the Bush plan consists mostly of spending incentives apparently designed to curry favor with voters. The small-

er tax withholdings, the \$5,000 credit for first-time home buyers, and the reinstitution of passive losses on real estate do nothing to promote the idea that thrift is good. The proposal aimed at increasing personal savings—the flexible individual retirement account—permits the money to be spent, tax-free, just seven years from now.

Some economists are saying the proposals are coming too late because the recovery will probably be here in the summer, tax cuts or not. And the plan received a raspberry from the bond market, which right now may hold ominous sway over the economy's future. The market clearly signaled its disapproval of Bush's plan by pushing long-term interest rates back up to their levels of early autumn. Higher rates jeopardize the first tender shoots of recovery that are peeping out of the snow even before the State of the Union speech. What a bitter twist it would be if the bond market's disapproval were to give us a triple-dip recession.

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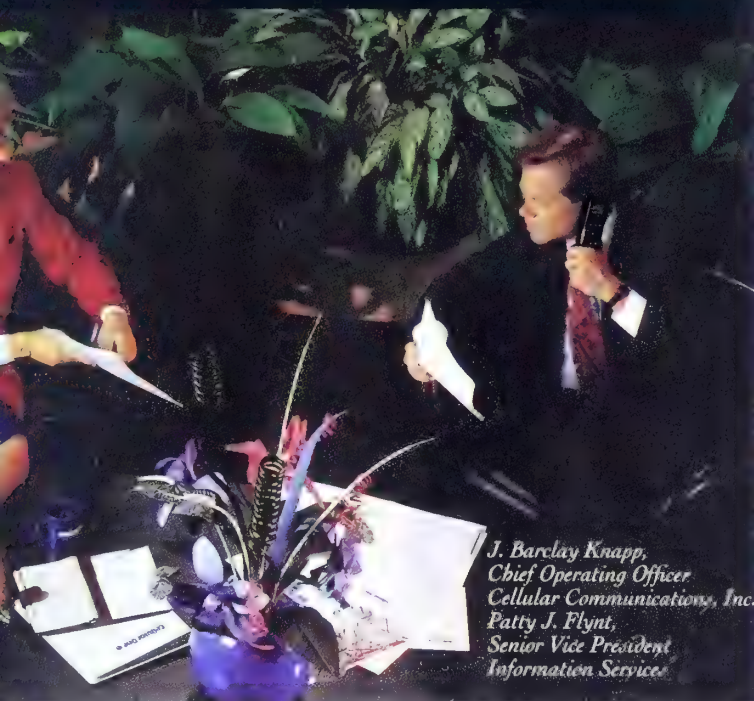
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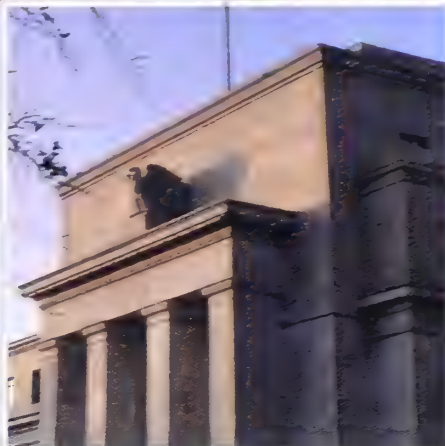


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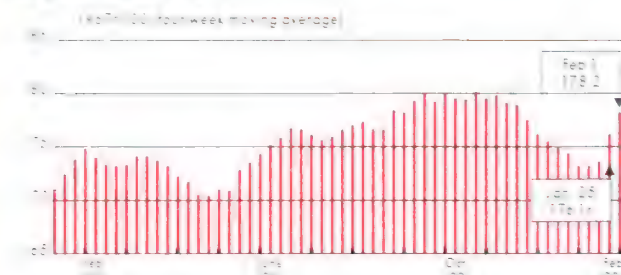
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BusinessWeek Index

PRODUCTION

Change from last week: 0.1%
Change from last year: 1.0%

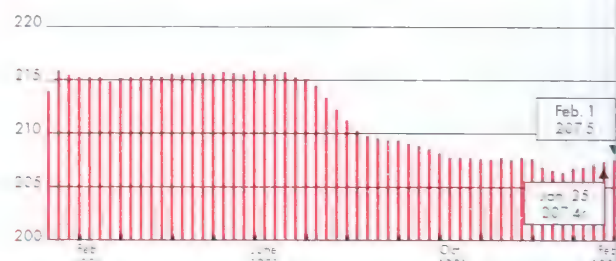


The production index increased during the week ended Feb. 1. On a seasonally adjusted basis, the output levels of trucks, lumber, coal, steel, paperboard, and rail freight traffic rose, while auto, electric power, and crude-oil refining output declined. Paper production was unchanged. Before calculation of the four-week moving average, the index fell slightly to 179.1, from 179.4. For all of January, the index advanced to 176.7 from 174.4 in December.

BW production index (weight: 992) by McGraw-Hill Inc.

LEADING

Change from last week: 0.1%
Change from last year: -3.6%



The leading index rose slightly during the week ended Feb. 1. Calculation error in the three previous weeks have been corrected. Improved growth rates for materials prices, M2, and real estate loans offset higher bond yields and falling stock prices. Data on business failures were unavailable. Before calculation of the four-week moving average, the index increased to 209, from 207.7 in the previous week. For the month of January, the index rose to 207.6, from 206.4 in December.

Leading index (weight: 992) by Center for International Business Cycle Research

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
STEEL (2.8 mils of tons)	1 720	1 700#	8.8
AUTOS (2.6 mils)	108 591	108 260#	+0.9
TRUCKS (2.6 mils)	70 399	69 227#	+9.6
ELECTRIC POWER (2.8 mils of kw-hours)	57 060	57 267#	-0.9
CRUDE-OIL REFINING (2.8 mils of bbl/day)	12 810	12 426#	+3.2
COAL (2.1 mils of tons)	19 801	19 692	+0.6
PAPERBOARD (2.1 mils of tons)	612.8#	709.4#	-1.2
PAPER (2.1 mils of tons)	750.0#	752.0#	-2.2
LUMBER (2.1 mils of cu ft)	521.8#	494.5#	+8.2
RAIL FREIGHT (2.1 billions of ton-miles)	20.9#	20.6	+8.3

Sources: American Iron & Steel Institute, World Automotive Production, Energy Branch Institute, American Petroleum Institute, Energy Dept., American Paper Institute, WPIA, SPPA, Association of American Railroads.

FOREIGN EXCHANGE

	Latest week	Week ago	Year ago
JAPANESE YEN (2/12)	1.27	1.26	1.20
GERMAN MARK (2/12)	1.60	1.59	1.47
BRITISH POUND (2/12)	1.79	1.81	1.98
FRENCH FRANC (2/12)	5.46	5.41	5.00
CANADIAN DOLLAR (2/12)	1.16	1.18	1.15
SWISS FRANC (2/12)	1.42	1.41	1.26
MEXICAN PESO (2/12)	3 049	3 049	2 964

Sources: International New York banks. Currency is expressed in units per U.S. dollar, except for British pound, which is expressed in dollars.

PRICES

	Latest week	Week ago	% Change year ago
GOLD (2.1215 Troy oz)	357.200	354.300	+2.6
STEEL SCRAP (2.11) #1 heavy, \$/ton	59.50	59.50	+0.9
FOODSTUFFS (2.10) index 1967=100	206.8	204.2	+0.3
COPPER	102.7	102.8	-8.4
ALUMINUM	56.2	57.0	-1.1
WHEAT (2.1) #5 S.C.	4.67	4.55	+2.7
COTTON (2.1) strict low middling 1-1/16 in., c/lb	51.15	49.35	+34.1

Sources: U.S. Dept. of Commerce, Chicago market, Commodity Research Bureau, Metals Research, New York, and others.

LEADING INDICATORS

	Latest week	Week ago	% Change year ago
STOCK PRICES (2/7) S&P 500	412.43	412.14	+0.1
CORPORATE BOND YIELD, Aaa (2/7)	8.25%	8.25%	-7.1
INDUSTRIAL MATERIALS PRICES (2/7)	95.2	94.5	+1.1
BUSINESS FAILURES (1/31)	NA	361	N/A
REAL ESTATE LOANS (1/29) billions	\$402.3	\$401.7	+0.1
MONEY SUPPLY, M2 (1/27) billions	\$3 427.4	\$3 417.9#	+0.3
INITIAL CLAIMS, UNEMPLOYMENT (1/25) mils	450	450#	+0.1

Sources: Standard & Poor's, Moody's, Journal of Commerce, index 1980=100; DRI, Business Failures on large companies; Federal Reserve Board, Labor Dept., CBQR seasonally adjusted data on business failures and real estate loans.

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Change year ago
BUSINESS WEEK PRODUCTION INDEX (Jan.)	176.7	174.4#	+1.3
BUSINESS WEEK LEADING INDEX (Jan.)	207.6	206.4#	+0.6
EMPLOYMENT, CIVILIAN (Jan.) millions	117.1	116.7	+0.3
UNEMPLOYMENT RATE, CIVILIAN (Jan.)	7.3%	7.3%	+1.1

Sources: BW, CBQR, BLS.

MONETARY INDICATORS

	Latest week	Week ago	% Change year ago
MONEY SUPPLY, M1 (1/27)	\$924.4	\$912.6#	+1.3
BANKS' BUSINESS LOANS (1/29)	288.7	289.5#	-1.0
FREE RESERVES (2/5)	981	789#	+24.1
NONFINANCIAL COMMERCIAL PAPER (1/29)	133.8	133.3	+0.4

Sources: Federal Reserve Board, in millions, except for free reserves, which are expressed in billions of dollars.

MONEY MARKET RATES

	Latest week	Week ago	% Change year ago
FEDERAL FUNDS (2/11)	3.91%	3.83%	+6.29
PRIME (2/12)	6.50	6.50	+9.00
COMMERCIAL PAPER 3-MONTH (2/12)	3.97	4.09	+6.45
CERTIFICATES OF DEPOSIT 3-MONTH (2/12)	3.93	4.03	+6.44
EURODOLLAR 3-MONTH (2/6)	4.03	4.05	+6.53

Sources: Federal Reserve Board, First Boston.

1. The leading index is calculated by combining the BW index (weight: 992) with other components, estimated and/or projected, including machinery and defense equipment, and other factors. 2. NA=Not available. 3. Revised. 4. N/A=Not meaningful.

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A TAX WINDFALL FOR UNCLE SAM?

Regarding the article "Housing may need more than falling rates..." (Economic Trends, Jan. 20): While it is true that consumers are benefiting from lower interest rates, it should also be pointed out that the government (federal, state, and local) will benefit. Because the homeowner will have less mortgage interest to write off, more income will be subject to tax.

Based on estimates of mortgage-interest savings by economists (\$15 billion to \$40 billion), I believe the windfall to the government could be from \$4 billion to \$6 billion. Whether or not the economy gets a boost because of lower interest rates, the government tax coffers will increase.

Donald A. Hurdle
Sacramento

GAS GUZZLERS ARE STILL THE SAFEST AUTOS

Your article "Cars are getting smaller—but they're also getting safer" (Economic Trends, Dec. 30) recalls a faulty syllogism: All dogs are white; this animal is white; this animal is a dog. The General Accounting Office suggests that smaller means safer because crash deaths declined even as car size diminished. But the favorable casualty figures came in spite of size reductions, not because of them. The past 15 years describe a revolution in vehicle safety. Safety belts, air bags, child-safety seats, more crashworthy vehicles, and more forgiving interiors all contribute to a plunging fatality rate that sets record lows year after year.

Yet ironically, these favorable numbers disguise the increase in deaths resulting from the long-term decrease in vehicle size and weight. Between 1972 and 1983, the American automobile lost about 1,000 pounds—and the consequence is an additional 1,340 deaths and many thousands of injuries each year in single-vehicle crashes alone. Why? Because smaller, lighter vehicles are less stable and tend to roll over more frequently; rollover crashes are

among the potentially most severe. Large car-small car crash tests conducted by the National Highway Traffic Safety Administration (NHTSA) earlier this year proved what common sense and a rudimentary grasp of physics predicts: Small-car occupants face significantly greater risk of death or disabling injury in a collision with a larger vehicle. Can small cars be made safer today than their counterparts of a decade ago? Certainly, but the relative safety advantage of a comparably equipped large car compared to a small car cannot be set aside or ignored. To suggest otherwise does a disservice to the U.S. motorist.

Skipp Calver
Director
Office of Public & Consumer Affairs
U.S. Transportation Department
Washington

CHARMED BY THE DODGE VIPER

Your writer's review of the Dodge Viper suggests that Chrysler failed to produce a practical sports car that can be driven comfortably to work each day, rain or shine ("This Dodge: daredevil's delight," Personal Business, Jan. 20). I don't believe this was Chrysler's goal in designing the Viper. A lot of air bags, of power windows, and digital readouts of gas mileage and interior temperature are welcome simplifications not only to "gearheads" but also to automotive enthusiasts who long for the days of the A. C. Cobra, the Hemi "Cuda," etc. The "whoosh of the wind and rumble of the engine" are pleasurable experiences to such enthusiasts.

Brian S.
Atlanta

Many people do not realize that the Viper project was an experiment to teach an out-of-touch car builder, Chrysler, how to design, produce, and manufacture an automobile in a 12-month cycle, as do its Japanese counterparts. It paves the way for new products that are forthcoming in the years to come.

To me, a Honda owner, their new Hondas and new Jeeps look to be state-of-the-art. If they prove to be good quality,

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CORRECTIONS & CLARIFICATIONS

the story "Still shaky, even after shakeout" (Industry Outlook, Transportation, Jan. 13), we incorrectly that airlines USAir Group Inc. and Northwest Airlines Inc. have seen the of their borrowings double recent. Because of lower interest rates, borrowing costs are actually lower than a year ago.

the story "HCA's offspring are making Nashville a proud parent" (The Corporation, Jan. 27), we mistakenly identified Quorum Health Group Inc. a company that reached the public market in 1989. Quorum was formed through a management-led leveraged buyout, and its stock is not publicly traded.

reliable, this reader is willing to give Chrysler, and the U.S. auto industry, a better chance.

Stuart L. Hill
Sacramento

JOB-TRAINING PROGRAM A BOONDOGGLE

Regarding your article "90 days to learn to scrub? Sure, if Uncle Sam's paying" (Labor, Jan. 20): While numerous audits and investigations by the General Accounting Office and Office of the Inspector General have exposed instances of fraud and waste in Job Training Partnership Act (JTPA) program, we have never contended nor tried that this program is a boondoggle. Rather, it is a large, costly job program for the unemployed and underemployed that has a number of systemic weaknesses and vulnerabilities that led to wasteful practices and fraudulent schemes.

We have documented many of these weaknesses over the past eight years and have recommended a number of legislative amendments. Congress has been generally responsive to our concerns, and in October of last year, the House of Representatives overwhelmingly passed legislation to amend the JTPA, which included strengthened fiscal-accountability provisions. Currently, the Senate is also considering legislation to amend the JTPA.

Julian W. De La Rosa
Inspector General
U. S. Labor Dept.
Washington

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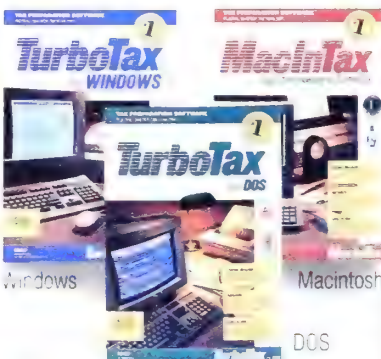


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Readers Report

make light of the three to six months takes to train people to wash cars, but these people are, in many if not most cases, the hard-core unemployed who have made a history of living on welfare.

The solution is not just to teach them how to wash a car. The solution lies in how to get them out of bed in the morning on time and how to get them to a job site with appropriate clothes. I found it unbelievable that people did not know how to dress properly for a car-wash or could not show up regularly at 9 a.m., but this was the case.

After having worked with the program for years, I'm convinced that you are ever going to break hard-core unemployment in this country and get people off welfare, you need a job-training program such as the JTPA.

Robert C. Redman
Lake City, Minn.

SMELLING AT SPANISH BRANDY

A cognac (and brandy) drinker for over 40 years, I have never paid more than about \$35 for a good bottle of VSOP from Hennessy, Rémy Martin, J. & F. Mus, or Biscuit, and I have also found quite a few really good French cognacs that still cost under \$20 ("Brandies that don't speak French," *Personal Business*, Jan. 27).

Spanish cognacs are just not up to par and carry a slightly rough alcohol taste similar to the French VO cognacs, but harsher. It is regrettable that you still find Spanish, Italian, and U.S. brandies. The world is bigger, and German *Wein* brands such as Asbach Uralt and many others are at least as palatable as the run-of-the-mill Spanish ones. There are also quite a few very passable Hungarian and Romanian brandies.

J. Larry Nederlander
Rancho Santa Fe, Calif.

Your article concerning Spanish brandy reminded me of Winston Churchill's comment to the South African Premier, Jan Christiaan Smuts. During the war, the old field marshal presented Churchill with a bottle of South African brandy. After the first sip, Churchill lightly remarked: "Most excellent, Smuts. But it isn't brandy."

Alfred J. Luchins
Chairman
International Churchill Society
New York

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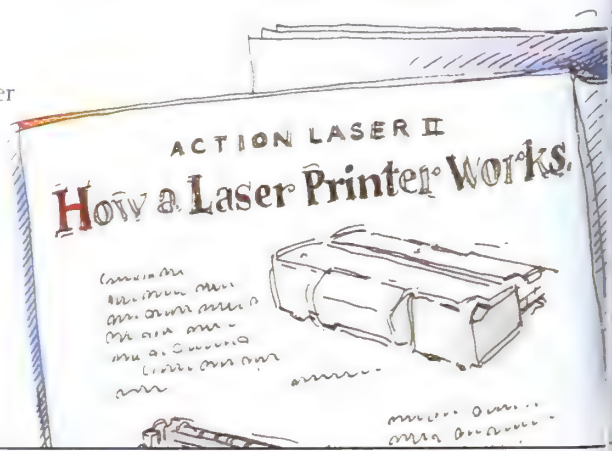
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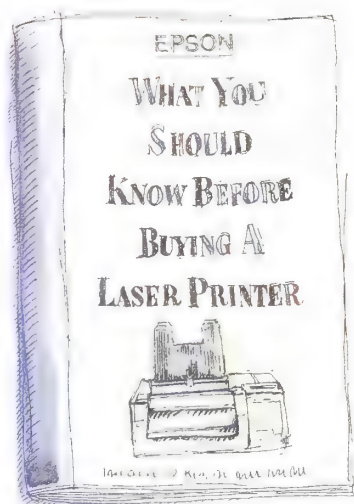
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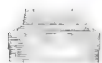
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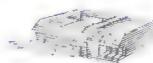
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WHEN TIME STOPPED MARCHING ON

Familiarity breeds contempt—unless you're a veteran of Time Inc. Then it breeds reverence for Henry Luce's company and contempt for any who would trifle with his legacy.

That's the subtext of *To the End of Time*, Richard M. Clurman's hard-edged assessment of the Time Warner merger. Clurman had a distinguished career at Time Inc., becoming *Time*'s chief of correspondents and then a corporate executive before leaving in 1975. His book makes it clear he still cherishes the culture Luce fostered. And he says he viewed the 1989 merger skeptically.

There's little to suggest he has changed his mind. Despite his efforts to be unsentimental, Clurman's sense of loss is palpable as he describes Time's evolution from a place where journalists worked in splendid isolation from mar-

ket forces to a company unhappy with its reliance on print and determined to move further into the fast-growing video world. His take on Warner is more dry-eyed, with an unsparing account of Warner boss Steven J. Ross's Brylcreem personality and past murky dealings.

Clurman's thesis is that Ross romanced Time into making what amounted to the deal of the century for Warner: Its shareholders reaped billions when Time bought Warner for \$14 billion. Ross's take was almost \$200 million. And he cemented his control over the new media colossus by avoiding a contractual commitment to relinquish his co-chief executive title after five years. Time had once regarded that as the *sine qua non* of any deal with Warner.

Time's executives and directors, as Clurman tells it, betrayed an astonishing

lack of curiosity about Ross. Only 2 of 12 board members bothered to meet with him before signing off on the merger. And Time never checked into a 61-page report, drawn up for Warner by an independent investigator, concerning Ross's alleged involvement in a bribery and racketeering scandal. One executive told Clurman the affront of asking to see the report might have "killed the deal."

Time's top brass, it seems, could have done with a few cold showers. Once they had settled on a merger, they fixated on Warner and Ross. "Let's make this goddamn deal happen," said Chairman Richard Munro at a critical juncture. Afterward, he declared: "Time Inc. is going to live. Long live Time Warner."

Those are fighting words to an old-timey such as Clurman. Indeed, he saves an arrow from his quiver for Munro. Clurman portrays him as an amiable but somewhat dim manager, happy to fraternize in the canteen than leading Time into the new media world. Under Munro, Time's efforts to expand beyond print and cable TV were fitful and uninspired, and its biggest new magazine in the 1980s, *TV-Cable Week*, was a disaster. With growth slowing, Clurman suggests, the merger was motivated

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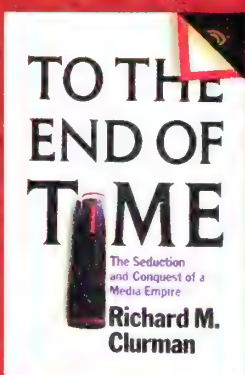


IMPROVE YOUR

vision of a global conglomerate. Clurman's account of the stop-and-go merger is engrossing. Drawn notes scrawled by Ross, he shows how he won support for the deal among leery directors. He gives a blow-by-blow account of a meeting at which a teary-eyed Ross called off talks after a dispute over whether he should be legally obliged to retire in 1994.

Oddly, such you-are-what-you-eat episodes are few. In particular, Clurman's portrayal of Ross is unsatisfying. He has thoroughly debunked old allegations that Ross received kickbacks from a mob-connected theater in Westchester County, N.Y., and has unearthed juicy tidbits from an internal Warner probe of the 1970s: Ross, it says, stashed a briefcase full of cash in his office closet during the mid-1970s. Other Warner execs later convicted of a variety of crimes relating to the theater scandal. The report finds Ross's claim that his

Clearly, Clurman thinks Steve Ross—who gave little but got much—hornswoggled his Time counterparts



cash came from gambling "troublesome." But, like the government's investigation, Clurman finds no smoking gun.

More disappointing than this fresh trip down an old dead end is Clurman's superficial insight into Ross's seductive personality. We learn that he is chummy with superlawyer Arthur L. Liman and filmmaker Steven Spielberg, who describes the beguiling Ross as a "six-foot three-inch E. T." Clearly, Clurman thinks Ross, who conceded so little and gained so much, hornswoggled his counterparts

make Ross at once a savvy dealmaker, media visionary, and everybody's favorite dinner partner.

What concerns Clurman most is the fate of Time's fabled magazines. His conclusion is doleful: Luce's strict separation of editorial and business operations is slowly but surely crumbling. Time's editor-in-chief, once the chairman's equal, now wields no more clout than any other division head.

For all its promise, Time Warner Inc. has so far won notice mainly for Ross's munificent pay and a failed rights offering that rankled shareholders. Much of the company's success now hinges on its ambitious joint venture with Japan's Toshiba and C. Itoh in movies and cable TV. Clurman, though, is waiting to find out whether the company will adopt Time's sober propriety or Warner's *la dolce vita* culture. Here's a hint: Break out the Dom Pérignon.

BY MARK LANDLER

Landler covers the media business for BW.



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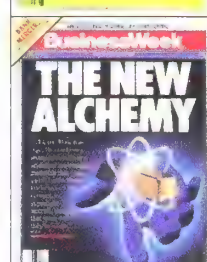
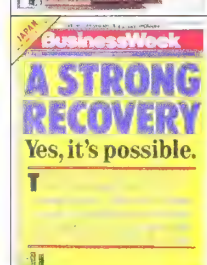
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BUSH AND THE BUDGET: DON'T MAKE A BAD MISTAKE WORSE

BY PAUL CRAIG ROBERTS



Agreeing to bench Reaganomics in 1990 was a major blunder. Now, the deficit has more than doubled and the economy is going nowhere fast. But it's not too late for the President to turn the tide

During the 1980s, budget deficits that were small by current standards were blamed on tax cuts. President Reagan's policies were said to have buried the U.S. under a deluge of red ink, sucking in the rest of the world's capital to finance the U.S. national debt.

In this *jihad* against Reaganomics, facts fell on deaf ears. For instance, when the Federal Reserve Bank of St. Louis announced in October, 1988, that the growth rate of national debt in the U.S. during the 1980s was no greater than the average growth rate of debt of the Group of Seven industrialized countries, the news went unremarked. That's odd, because if the U.S. was using the world's capital to finance its debt, which more than doubled in the 1980s (as it had in the 1970s), then who was financing the growth of debt in Canada, France, Italy, Japan, and Britain, where national debts also more than doubled, and in Germany, where debt almost doubled?

Such interesting questions never found their way into the minds of media pundits or university professors. Instead, hostility toward tax-cutting found its way into the economic policy of the U.S. Since 1982, federal taxes have been raised by an amount greater than the size of the 1981 tax cut.

This tax-hike policy culminated in the autumn, 1990, budget agreement. As reflected in *The Budget of the U.S. Government, Fiscal Year 1992* (issued in January, 1991), this agreement projected the swift demise of the federal deficit. At last, declared its admirers, supply-side economics had been benched, and lower interest rates from deficit reduction would reinvigorate the economy.

ENDLESS BURDEN. Now, the facts are in, and the promises of the budget agreement have proven to be hollow. The budget for fiscal year 1993 (issued in January, 1992) shows an unprecedented deterioration in the economic and budgetary outlook. Compared with the five-year forecast in last year's budget, the 1992-1996 structural budget deficit (the red ink that remains after deleting the effects on the budget of the recession and deposit-insurance bailout) has increased \$900 billion—a sum substantially larger than the five-year cost of the 1981 tax cut. Moreover, the new budget shows the annual structural deficit—which had all but disappeared in last year's budget—persisting around the \$200-billion level for as far as the eye can see.

The promised vigor from lower interest rates has disappeared, too. Compared with a year ago, the outlook for the economy has deteriorated so badly that the government now expects \$1.26 trillion less growth in our gross

national product over the 1992-1996 period.

Most astonishing of all, the structural budget deficit for fiscal year 1992 is now projected to be \$120 billion larger than that of a year ago. Despite—or because of—the tax increase, the latest budget estimates \$89 billion less in tax revenues in 1992 and \$536 billion less over the 1992-1996 period. Meanwhile spending is up \$273 billion despite the new cutbacks in defense outlays.

When President Reagan left office, the economy was growing and the deficit was not. Compared with today's \$401 billion deficit, Reagan's was a mere \$150 billion. Under President Bush, the opposite has occurred: The deficit has grown and the economy has not.

In the face of this experience, there is no basis for the belief that tax increases help the economy by reducing deficits and interest rates. If lower interest rates offset the harmful effects of tax increases, the economic outlook would be better, not worse.

PIE IN THE SKY? This terrible budgetary outlook is based on such favorable economic assumptions that they make the "rosy scenario" of the Reagan Administration seem pessimistic. If Congress doesn't pass the paltry revenue-neutral tax package that President Bush outlined in his State of the Union address, the Office of Management & Budget calculates that a minimum of \$201 billion has to be added to the cumulative deficit, and an additional \$585 billion (in 1987 dollars) has to be subtracted from the U.S.'s already-diminished economic-growth path.

So much for the vaunted budget agreement that was going to save the economy from deficits. President Bush should have known that any agreement supported by the editorial pages of *The New York Times* and *The Washington Post* could not possibly be in his interest. Now, with his Presidency imperiled, Bush has fallen back on tax cuts—though revenue-neutral ones, of course—in order to save the worthless budget agreement.

Bush has the power within his grasp to save the economy and his Presidency. The Treasury can index capital gains and depreciation for inflation simply by issuing new regulations. The cost basis of capital gains and business depreciation are defined by regulation and not by statute. It is ridiculous for President Bush to put the economy and his reelection prospects in the hands of his opponents in Congress when he can cut taxes through regulatory action. Indexing the capital-gains tax would lower the rate, and adjusting depreciation for inflation would increase business cash flow. By not using his powers, Bush has chosen slogans over action.

PAUL CRAIG ROBERTS IS CHAIRMAN OF THE INSTITUTE FOR POLITICAL ECONOMY IN WASHINGTON.

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BY GENE KORETZ

TRICKLE-DOWN ECONOMICS MAY NOT HELP THE POOR...

Poverty, like death and taxes, may always be with us, but it seems to have been more prevalent over the past decade than anyone expected. And that development, plus the current uncomfortable 13.5% poverty rate, is calling into question the traditional view that the single most effective way of improving the welfare of the needy is to promote overall economic growth.

The notion that a rising tide raises all ships is hardly controversial. Throughout most of the postwar period, and especially during the long expansion of the 1960s, economic growth has been strongly associated with a decline in poverty.

The problem, however, as made clear

poverty? Some observers blame demographic changes, such as the rise in female-headed households. But Cutler and Katz point out that most of this shift occurred in the 1970s. Further, they note that poverty reduction was sluggish for all family types in the 1980s.

Another possibility is that the growth of transfer programs such as food stamps and housing benefits have masked a decline in poverty because they aren't counted as income in determining poverty levels. Blank's analysis, however, shows that such benefits per recipient exhibited no growth during the 1980s. And while there were some cuts in cash transfers to poor families, they had little impact on the number of poor families.

The main reason poverty failed to respond to the 1980s expansion, conclude Blank, Cutler, and Katz, is that the nature of the economy and the effect of growth on incomes of low-wage workers changed dramatically. The expansion did reduce unemployment among the poor. In fact, Blank notes that their work effort—as measured by employment and weeks of work—increased more in the 1980s than in the 1960s.

The problem is that real wages among low-income workers declined in the 1980s, leaving many workers mired in poverty despite their best efforts. At the same time, those at the top of the income scale posted healthy gains, while many others simply marked time.

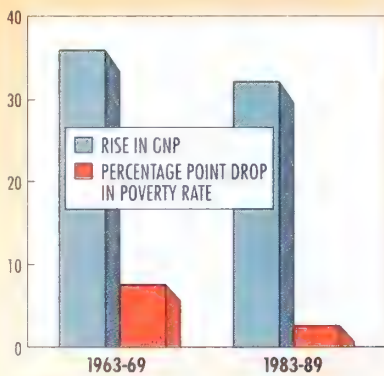
In sum, says Blank, "an expanding economy no longer seems a panacea, allowing us to reduce poverty while we all become richer." If the wage patterns of the 1980s persist, the war on poverty will require better-targeted weapons than simple economic growth.

median aftertax income as the poverty line—a definition that approximates the U.S. standard.

What Smeeding finds is that in the mid-1980s, the level of poverty in the U.S. was 2.3 times the average in the other countries studied. In fact, the U.S. was the only nation with double-digit poverty rates for adults, the elderly, and children. The picture changes dramatically, however, if one looks at income before taxes and transfer programs such as Social Security. On a pretax and pre-transfer basis, the U.S. actually has lower poverty rate than most of the other nations—19.9% in 1986, vs. an average of 22.4%. In short, foreign tax and-transfer systems reduce poverty far more than the U.S. system does.

The U.S., concludes Smeeding, would do well to study antipoverty strategies overseas. The tax-and-transfer system of other modern nations "seem better suited to fighting poverty and to promoting economic independence."

THE WANING IMPACT OF GROWTH ON POVERTY



▲ PERCENT

DATA: COMMERCE DEPT., REBECCA M. BLANK

in a recent study by economist Rebecca M. Blank of Northwestern University and an article by Harvard University economists David M. Cutler and Lawrence F. Katz in *The Brookings Review*, is that this relationship broke down in the 1980s. "The rising tide of the 1980s," says Blank, "had relatively little impact on the incidence of poverty."

Comparing the expansionary periods of 1963-69 and 1983-89, Blank notes that the economy posted similar rises in output and inflation and similar declines in unemployment. But the poverty rate, which fell by 7.4 percentage points in the 1960s, declined a mere 2.4 percentage points in the 1980s—leaving it "at least 3 percentage points higher than it would be if it had shown its usual responsiveness to the macroeconomy."

Why didn't the growth elixir of the Reagan years have more impact on

...AND OTHER NATIONS DO BETTER KEEPING POVERTY AT BAY

How does the U.S. antipoverty system stack up against those of other nations? To find out, Syracuse University economist Timothy M. Smeeding, writing in the current issue of *Challenge*, looks at poverty rates in eight industrial countries, including Britain, Canada, France, Germany, and Sweden in the mid-1980s.

Rather than counting only pretax income to estimate poverty rates, Smeeding includes the effects of taxes and tax credits (and food stamps) in determining income levels, an adjustment that actually lowers the U.S. poverty rate slightly (13.3% in 1986, vs. the official rate of 13.6%). For other nations, he uses 40% of

OFFICE BUILDINGS: THE 'VACANCY' SIGN IS STILL OUT

The recession is still taking its toll on commercial real estate, reports Cushman & Wakefield Inc. Despite a dramatic fall in construction, the firm says the national vacancy rate in central business districts rose to 18.8% at the end of 1991, up from 17.6% at yearend 1990. The rate for suburban business premises increased slightly, from 21.1% to 21.4% in the same period.

There are some scattered signs of stability. Asking rents have risen a bit in downtown Houston, and vacancy rates have fallen slightly in Houston, Washington, and San Francisco—as well as in most Southern suburban areas.

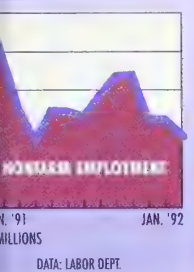
WHAT DO THE JAPANESE LIKE ABOUT THE U.S.? ITS VACATION SPOTS

Japan's view of the U.S. may seem jaundiced, but that apparently hasn't dimmed Japanese desires to visit the states. The Travel & Tourism Administration reports that 3.3 million Japanese traveled to the U.S. last year—up 93% since 1986. What's more, they spent \$8.5 billion, more than any other nation's visitors. Helped by such largess, the U.S. now garners 16% of all world tourism receipts and boasts a travel-and-tourist trade surplus that doubled last year from \$5.3 billion to \$10.6 billion.

JUST WHEN YOU THOUGHT THINGS COULDN'T GET WORSE . . .

his winter of our discontent is turning out to be a lot harsher than most economists had figured. The forecasters had expected business to flounder a bit before starting to recover this spring. However, the latest round of cold economic reports strongly suggests that the economy is contracting instead of barely surviving. While chances for an upturn by midyear still are high, the data remain less than reassuring. Manufacturing is one problem. Factories slashed their inventories at yearend, and shipments of capital goods plummeted. These large declines imply that inventories of equipment spending, two areas that boosted real gross domestic product in the fourth quarter, will be pared downward when the Commerce Dept. releases its report on Feb. 28. Real GDP, first reported to have risen a scant 0.3% annual rate, could end up posting a drop.

ROLLS GIVE BACK LAST YEAR'S GAINS



The job report got the attention of the credit markets, but any reaction by the Federal Reserve remains speculative. Short-term interest rates fell after the job data came out, as if the market has already factored in a quarter-point easing by the Fed in the federal funds rate. The markets expect just such a move sometime next month when Chairman Alan Greenspan goes to Capitol Hill on Feb. 19 to deliver his semiannual Humphrey-Hawkins testimony on the course of monetary policy (page 30).

JOB LOSSES ARE WORSE THAN FIRST THOUGHT

The weakness in the January job report was about as broad as it ever gets. Nonfarm payrolls fell by 91,000, and December rosters were 28,000 lower than the Commerce Dept.'s initial estimate. The unemployment rate climbed to a high 7.1%. The workweek fell in January, and manufacturing hours down sharply. And average hourly earnings plunged. The downbeat implications for output and incomes are obvious.

Businesses now have shed all the workers they had added last year from April to August (chart). Moreover, the Commerce Dept. says its annual revision in June will include a

downward adjustment in job growth through March, 1991, totaling some 650,000. That will bring job losses from June, 1990, through January, 1992, to 2.3 million.

That revision will assure that the current decline will end up similar in size to the losses experienced during the severe recessions in 1973-75 and 1981-82, when jobs fell by 2.3 million and 2.8 million, respectively.

The breadth of the January employment drop was particularly discouraging. Only 45% of the 356 industries in the survey added workers last month. That was the fourth consecutive month in which that figure has been below 50%, meaning that most businesses still are either keeping hiring on hold or laying off.

CAPITAL GOODS ORDERS TAKE A DIVE

Last month's job numbers confirmed that the manufacturing sector is getting into deeper trouble. The December reports on factory orders, shipments, and inventories suggested as much. Manufacturers' orders and shipments each dropped a steep 3.8% in December. And factory employment slid by 52,000 in January, following a loss of similar size the month before.

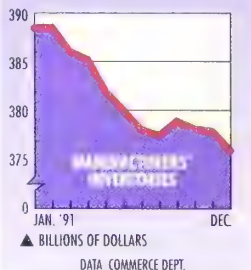
As with the job report, the disturbing feature of the weakness in factory orders and shipments was its breadth. Aircraft and autos, which often contribute wide swings in the data, accounted for some, but far from all, of the declines. Indeed, orders for nondurable goods dropped 2.4% in December, the largest decline since a year ago, during the worst months of this recession.

Orders for capital goods, excluding defense, plunged 16.8%, and shipments fell 6.7%, to the lowest level since the recession began in July, 1990. Anticipation of tax credits for investment spending in 1992 may have pushed some equipment purchases into the New Year, thus aggravating those losses.

Nevertheless, the dropoff in domestic demand last quarter was widespread, and it was large enough in the consumer sector to swell retail inventories, particularly in nondurable goods. Consumer retrenchment hit manufacturers hard in December. As retailers cut their orders in an attempt to get their stockpiles under control, factories slashed output and employment in order to get their own inventories into better alignment with sales (chart).

As a result, inventories in manufacturing fell a steep 0.5% in December, after small declines in both November

INVENTORY CUTTING RESUMED AT YEAREND



Business Outlook

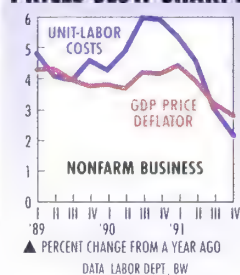
and December. The inventory-cutting apparently continued into January. Last month's payroll cuts and a drop in the factory workweek from 41.1 hours to 40.8 hours imply that industrial production fell last month.

A BETTER CLIMATE FOR PROFITS

Persistent weakness in the labor markets is part of a troublesome dichotomy in the near-term outlook. Companies are working hard to improve their bottom lines, but the labor markets are suffering the consequences. The problem: Trying to make money in a weak economy where pricing power is virtually nil means laying off workers to cut costs.

To be sure, the outlook for profits in 1992 is more promising than it has been in years. Lower interest rates mean a cut in interest expenses, and unit labor costs have slowed sharply. From mid-1988 to mid-1991, labor costs outran the growth of prices, and profit margins were squeezed. Now, that situation is reversing.

LABOR COSTS AND PRICES SLOW SHARPLY



However, businesses are reaping productivity gains and cutting costs at the expense of widespread layoffs: Output was unchanged last quarter, while hours worked shrank. As a result, nonfarm businesses raised their productivity at an annual rate of 1.1% in the fourth quarter, while compensation rose only 2.4%. That combination means that unit labor costs

grew by just 1.3%, the slowest pace in nearly 4 years.

The plus for profits is that, during the past year, unit labor costs have risen only 2.1%, even slower than the modest 2.7% increase in prices (chart). That's a good sign that profit margins should begin to improve in 1992. But for now, it's a drain on the labor markets—and on consumers' spirits and pocketbooks.

Income growth is slowing down dramatically. In January, the nonfarm wage slipped by 0.1%, to \$10.47 an hour. Over the past 12 months, hourly pay is up just 2.8%—the slowest pace in nearly four years. And because the nonfarm workweek fell by 12 minutes, to 34 hours, average weekly pay plunged by 0.7% in January. That suggests a big drop in January personal income.

Faced with sagging incomes and shaky job prospects, consumers are rethinking their finances, and that means cutting debt. Consumer credit fell for the second month in a row in December, by \$1.7 billion, dropping outstanding installment debt to \$728.4 billion (chart).

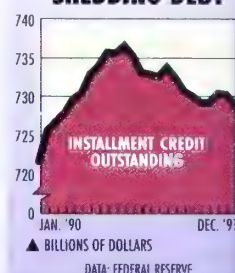
Installment debt is now equal to 16.9% of disposable income, the lowest such ratio in six years. Auto loans continued to shrink, but revolving debt, mostly credit cards, dropped by \$207 million in December.

Not all credit is out of favor, though. Consumers are turning increasingly to home equity loans. Such borrowings remain popular probably because the interest rate is lower than most other forms of personal credit, and because the interest is still tax-deductible.

In 1991, home equity loans from commercial banks were up by 13.9%. That's down from the 23.3% pace of 1990, but the contraction in installment debt during the same period suggests that consumers are, to some extent, substituting one kind of debt for another.

Consumers won't be weaning themselves completely off debt, but their overall use of credit is slowing. That means consumer spending will not rise rapidly this year, but it also implies that households will be in better financial shape. Stronger balance sheets for both consumers and businesses are critical if this frozen economy is going to thaw out as the weather gets warmer.

CONSUMERS ARE SHEDDING DEBT



THE WEEK AHEAD

CONSUMER PRICE INDEX

Wednesday, Feb. 19, 8:30 a.m.

Consumer prices are expected to post a mild 0.2% increase in January, according to economists surveyed by MMS International, a division of McGraw-Hill Inc. This advance would be slightly less than the 0.3% rise in December. Falling oil prices are holding down the inflation rate. However, excluding food and energy costs, the consumer price index might show a bigger gain in January, possibly as high as 0.5%. The Labor Dept. now includes spring apparel in its January survey, and the higher cost of these clothes may offset the discounts on winter merchandise. Also, higher prices for public transportation and hotel

rooms are expected to push up the core inflation rate. In December, the CPI, excluding food and energy, rose 0.3%. Even with the large gain, however, the yearly core rate of inflation should remain near 4%, and the total CPI probably increased by less than 3%.

HOUSING STARTS

Wednesday, Feb. 19, 8:30 a.m.

The MMS consensus forecasts that housing starts rose slightly in January, to an annual rate of 1.13 million from 1.1 million in December. The housing recovery continues to get some lift from low mortgage rates. If the White House proposal to give a tax credit for first-time home buyers is enacted, home building may show stronger gains in the spring.

MERCHANDISE TRADE DEFICIT

Thursday, Feb. 20, 8:30 a.m.

The foreign trade deficit likely widened to about \$4.7 billion in December, from \$3.6 billion in November. Exports, which were at a record high of \$37.5 billion in November, probably fell slightly in December, to \$37 billion, say the MMS economists. And imports, which dropped a steep 5.5% in November, likely increased to \$41.7 billion in the following month. That's indicated by a gain in customs duty payments in December. The expected increase in the trade deficit would mean that the net export sector probably did not add as much to real economic growth in the fourth quarter as first thought by the Commerce Dept.

IT WAS LOVE AT FIRST, SECOND AND THIRD SIGHT.

1990 TEN BEST CARS

Nissan 300ZX/300ZX Turbo

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1991 TEN BEST CARS

Nissan 300ZX Turbo

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1992 TEN BEST CARS

Nissan 300ZX Turbo

As our group of Ten Best editors at the 300ZX Turbo and a separate two-seater with its competition, the advice: "civilized" since more cars are sold. As a car it should be the most what could be defended as a cheap \$18,000—brings a new feel to the car in the grand manner. It's not a car that's in the enthusiasm to see how far Nissan has taken the car of the sports car. The 300ZX is a car that's in the spirit of the 24/7 has appeared twenty years ago but it remains close in spirit to that grand breaker.

Nissan's 300ZX line offers a two-engine, normally aspirated, four-cylinder, turbocharged and intercooled, four-cylinder, so it's averse to writing the best of it. It's kind of a normal price, especially when the turbocharged version is, which is again the most get out of the car.

For the purest kind of driving satisfaction on that perfect road on that perfect day, the Nissan 300ZX Turbo gets it. It's the perfect car.



Seldom has one automobile inflamed so much passion among the experts as has the Nissan® 300ZX® Turbo. For three years in a row, the Turbo Z® has been named to *Car and Driver's* 10 Best List as well as *Automobile Magazine's* All Stars List. And in the February, 1992 *Car and Driver* comparison, the Turbo Z put to rest any ideas the Chevy Corvette,

Lotus Elan and new Mazda RX-7 Turbo had about coming between us. "No ambivalence... no controversy... we all loved it... the perfection of it completely wins us over," they said. To which we say, "Thanks. It's been a breathtaking three years for us, too."

And they said it wouldn't last.



BUILT FOR THE
HUMAN RACE.®

WHAT MORE CAN GREENSPAN DO?

HE MUST FIND A WAY TO STOP RISING RATES FROM CHOKING OFF RECOVERY

Alan Greenspan must feel as if he's talking to himself. The Federal Reserve chairman has told almost everyone that the Fed has cut short-term interest rates enough to get the U.S. economy out of recession. The easing "appears to be sufficient to support a satisfactory recovery," Greenspan recently told Congress. That still hasn't squashed hopes for further cuts, and even Greenspan allows that if the economy needs it, he'll ease again.

But on Feb. 19, when Greenspan heads to Capitol Hill to defend the central bank's handiwork, he'll be focusing on the Fed's next battle. His overarching goal? To prevent rising long-term interest rates from choking off the recovery he expects by spring.

After an exhilarating New Year's plunge, rates on mortgages and long-term bonds have climbed back to pre-Christmas levels. And grumpy bond investors have made it clear that long rates aren't coming down anytime soon: The Treasury Dept.'s \$36 billion quarterly offering of securities got off to a shaky start on Feb. 11-12, when rates spiked upward on the usually popular three-year notes, and the 10-year sale forced yields up, too.

'PANICKED.' One big problem is supply. With the federal deficit shooting from \$268 billion last year to \$400 billion this fiscal year, investors expect soon to be choking on Treasuries. And that has left a historically large spread between short- and long-term rates (chart). "These markets are panicked by the oncoming supply of bonds," says David A. Wyss, financial economist at DRI/McGraw Hill. "The January low was the bottom for long rates."

So chary are the credit markets that even the weak January employment report (page 27) dampened long-term rates only briefly. That's why, despite mounting pressure to give the economy another swig of easier credit, Greenspan is reluctant to push short-term rates down. Besides, with short rates now under 4%,

there isn't much room left for cutting.

Instead, after boldly slashing rates last December, Greenspan now seems intent on returning to his more customary role as inflation slayer. To keep bond rates down, he must again convince investors that he remains committed to squeezing inflation out of the economy. "It's clear to us that the modest decline in long rates reflects the markets' expect-

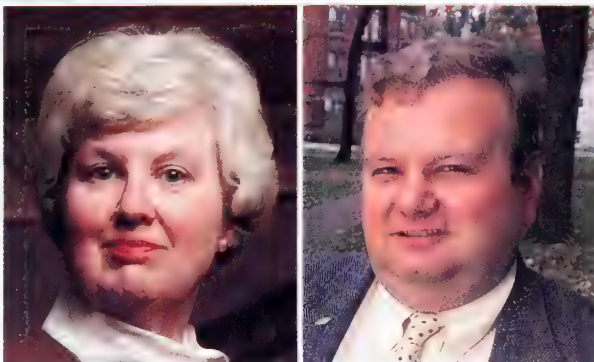
tation that inflation will fall only for the next three or five years," Greenspan told the Senate Banking Committee recently. "Unless we can break that, we can never get long rates down."

If Greenspan can't muster a convincing argument, he may be forced to take a perverse and extremely unpopular course: By summer, the Fed may even have to push up short-term rates to



k any rise in long rates. "At point in the cycle, Greenspan ther going to win the disinfla-game or lose it big," notes iam C. Melton, chief econo-at IDS Financial Services in Minneapolis. "It's fourth n and goal on the two-yard

ut Greenspan's team may be ited for this game. As the omy faltered on its way to recovery last fall, Green-and Vice-Chairman David Mullins Jr. were trying to it a swift kick with a rapid s of rate cuts. They had one big lem, however: Two seats on the s seven-member board were empty, the three remaining governors were tical about the need for lower rates. a result, Greenspan and Mullins t months trying to woo the needed s. They were convincing enough to through five rate cuts by Novem- But, says one Fed official, "every



PHILLIPS AND LINDSEY BACKED GREENSPAN ON RATE CUTS, BUT MAY NOT IF HE PUSHES HARD FOR PRICE STABILITY

move was like pulling another tooth."

Reinforcements arrived in December, when two new governors were sworn in. Lawrence B. Lindsey and Susan M. Phillips joined Mullins in championing a big rate cut, which would replace the Fed's strategy of chipping away at rates a bit at a time. The result: the full-point slash in the discount rate on Dec. 20.

But Phillips and Lindsey may prove

a good theoretical goal," but "I do not think you can in fact get there."

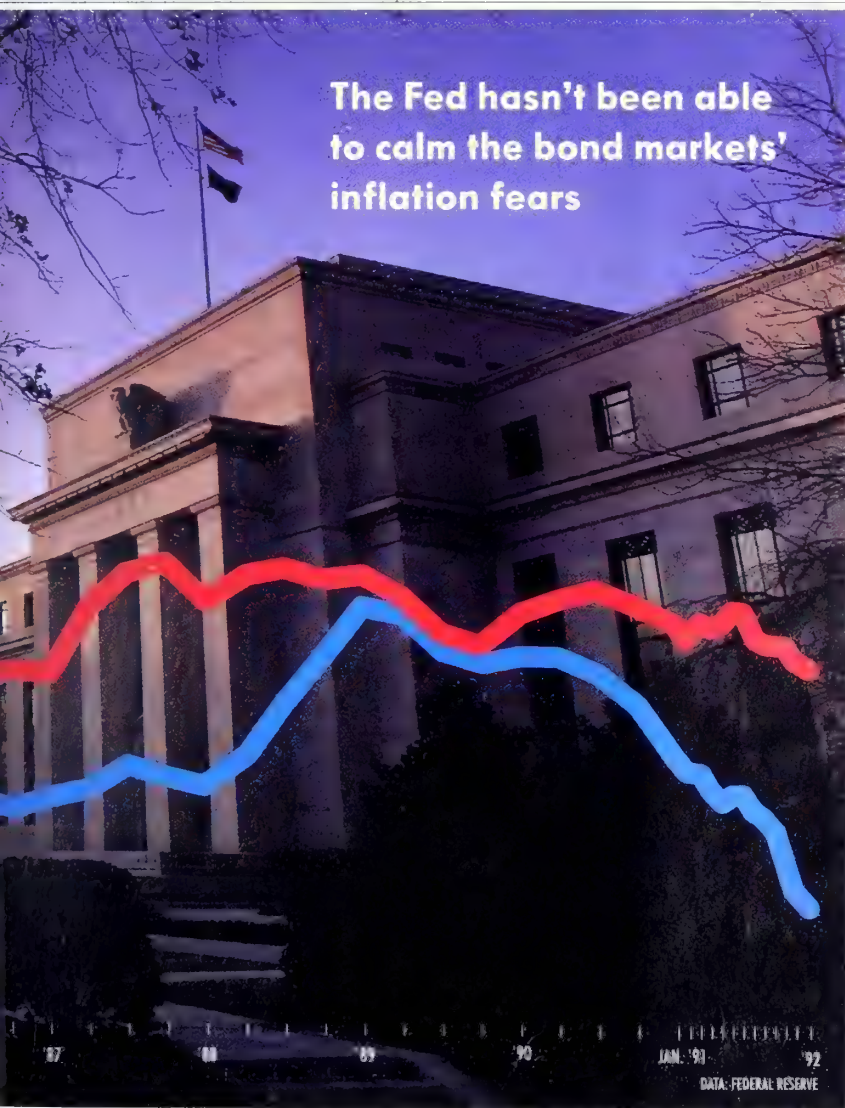
Lindsey, a Harvard economist who acted as an adviser to President Bush, echoes White House criticisms that Greenspan's Fed hobbled the economy by undershooting its money-supply growth targets from 1987 to 1991. And at his confirmation hearings, he suggested that eliminating inflation "will take most of the rest of the decade"—a time-table years longer than Greenspan's.

By contrast, the more senior governors—Wayne D. Angell, Edward W. Kelley Jr., and John P. La Ware—would rather err on the side of less inflation. Angell is particularly concerned that as the Fed cuts short rates, credit markets will boost long rates. And La Ware believes that healthier balance sheets will do more to boost the economy than lower short-term rates. With his reluctance to ease again, Greenspan seems set on shifting his weight back toward the inflation hawks' side.

HARD TO LIE LOW. That won't win him any new friends in Washington, where politicians value growth in an election year far more than they fear future inflation. The Administration has made it clear it wants another cut: On Feb. 12, Treasury Secretary Nicholas F. Brady said further easing "would be a good thing." A bold assertion of Fed independence during the campaign—especially a move to suppress long rates by raising short-term rates—would bring down the wrath of incumbents at both ends of Pennsylvania Avenue. Greenspan would certainly prefer to lie low until after Nov. 3.

Can he afford to? This economy won't recover until Americans cut debt and increase spending. Some progress has been made: The Mortgage Bankers Assn. estimates that lower rates—either through refinancing or adjustable-rate loans—will save homeowners \$22 billion this year, four times the \$5.2 billion in net fiscal stimulus promised by the President's State of the Union economic

The Fed hasn't been able to calm the bond markets' inflation fears



Top of the News

package. Lehman Brothers chief economist Robert J. Barbera attributes January's stronger-than-expected chain-store sales to the refinancings that started in November. "It's no coincidence that retail sales started to pick up just as the first of the refinancers were going to closing," says Barbera.

But the rebound in long rates has already dampened homeowners' enthusi-

asm. After doubling from Christmas to mid-January, the flow of mortgage refinancing applications fell 28% in the last two weeks of the month. Now, says a San Francisco banker, lenders are coping with angry homeowners who missed the bottom and refuse to commit to new loans until rates fall again. "They're a problem for everybody," she sighs.

Greenspan's job now is to get Con-

gress and the White House to focus on the long term. But with the two sides trying to top each other with new programs to juice the economy, that's no cinch. Until next November, Greenspan's best hope may be to keep long-term rates running flat.

By Mike McNamee in Washington, with Alice Cuneo in San Francisco and bureau reports

CREDIT CARDS

MAD AS HELL ABOUT LATE FEES

Consumers are suing credit-card issuers—and winning

Hey, bankers: Don't come out of your foxholes yet. Still reeling from the public brouhaha over credit-card interest rates that average three times the prime lending rate, bankers now face another assault. Consumers across the nation are banding together to challenge the monthly fees that banks charge customers who are late with their card payments.

At the center of the storm are working people such as Loretta E. Irwin, a Philadelphia paralegal. Last fall, in the midst of a job change, she fell behind in her Citibank Visa payments and soon found herself facing \$60 in late fees on her nearly \$2,000 balance. "It's bad enough we have to suffer the outrageous interest rates," she says, but the penalties were the last straw.

Now, Irwin and others are fighting back. In lawsuits filed in Alabama, Minnesota, and Pennsylvania, cardholders are challenging the right of out-of-state banks to charge late fees to residents of states that bar the fees. Since two dozen states outlaw the fees, the stakes are huge. Last year, the charges, which range from \$10 to \$15 a month, meant \$858 million to banks (chart).

CLASS ACTIONS. The consumer backlash gained steam in December, when a federal judge in Massachusetts ruled that Greenwood Trust, the Delaware-based bank that issues Sears, Roebuck & Co.'s Discover card, can't charge Bay Staters a \$19 monthly late fee. The judge ruled that Massachusetts law, which bars such levies, governs the Massachusetts activi-

ties of out-of-state credit-card issuers.

Greenwood Trust is appealing the decision, but contingency-fee lawyers in Pennsylvania aren't waiting around for the results. They've already filed class actions against Greenwood Trust and Citibank's South Dakota-based credit-card arm.

If the appeals court upholds the ruling and the other cases succeed, Consumer Bankers Assn. Senior Counsel Steven Zeisel warns, credit cards will become more expensive and harder to get. "The consequences would be tremendous," says Zeisel. He predicts that banks might refrain from marketing their cards nationwide.

Banks hope to convince the courts that federal law allows banks to "export" credit-card fees in the same way they can charge interest rates that are higher than those allowed by state usury laws. If you've ever wondered why your Visa bill comes from Delaware or South Dakota, it's because those states have neither usury ceilings nor consumer-protection laws that bar late fees.

But the banks are losing ground. In 1989, a California jury awarded \$5.2 million in penalties to users of Wells Fargo & Co. credit cards. The jurors found that the San Francisco bank violated a state

law barring banks from collecting more in late fees than the cost of processing past-due bills. A state appeals court upheld that decision in December, and Wells Fargo is seeking review by the state's highest court. "Eventually, these cases will wind their way up to the Supreme Court," says Alan S. Kaplinsky, co-counsel to Greenwood Trust.

GIVE AND TAKE. The issue couldn't have surfaced at a worse time for banks. Credit-card operations are among the most profitable parts of their portfolios—unlike, say, real estate. Politicians led by President Bush, have called on banks to slash credit-card interest rates, which average 18% annually. Some banks have responded by lowering their interest charges—and trying to compensate by raising late fees.

Banks won't give up easily. On Feb. 3 Chemical Bank persuaded New York legislators to eliminate the state's 10-day waiting period before banks can begin charging late fees. Lawmakers apparently feared that Chemical might move the Long Island card-processing operation of its merger partner, Manufacturers Hanover Co., to Delaware.

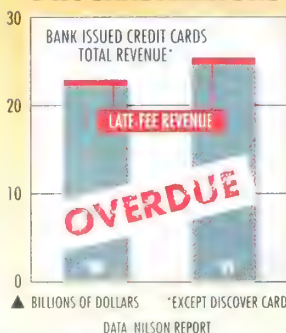
Consumers have lost that legislative battle, but their court victories are likely to keep the late-fee issue alive. It may be a year or more before the various cases around the country are resolved. But if consumers keep winning, banks will have to find another way to squeeze more profits out of plastic.

By Tim Smart in Washington, with John Meehan in New York



IRWIN: "IT'S BAD ENOUGH WE HAVE TO SUFFER THE OUTRAGEOUS INTEREST RATES"

MAKING MONEY FROM PROCRASTINATORS



HERE'S WHAT TO DO NEXT, DOW CORNING

Agent Memo To:

With R. McKennon
Chief Executive Officer
Dow Corning Corp.

...re taking over the company at a difficult time. Dow Corning is embroiled in a serious controversy over charges that it knowingly sold silicone breast implants that could rupture and leak, posing a serious health risk. The lawsuits are piling up, and the company's reputation has been badly tarnished. You seem a good choice for the job, having led the campaign to rehabilitate Dow Chemical's image, hurt by the Vietnam War, when it made napalm bombs. And I applaud your statement that the company's "overriding responsibility" is to the estimated 100,000 women with Dow Corning implants. Yet the 100 or so internal documents finally released by the company on Feb. 10 detail a good reason for serious worry, certainly

enough to question the company's long-standing denials and stonewalling. As early as the 1970s, Dow Corning managers and several plastic surgeons who installed the devices had disclosed their concerns about the product's safety. Here's what you should do now:

Tell the truth. Thus far, Dow Corning's hunker-down strategy has succeeded only in plunging it into a credibility crisis not unlike some classic corporate blunders of the past: General Motors and the Corvair, Hooker Chemical and Love Canal, A. H. Robins and the Dalkon Shield, Exxon and the Valdez. Now, you sorely need to come forth and share with the public everything you know as soon as you know it. That means taking apart every stone in the walls that Dow Corning has built since 1944, when a jury first ruled in favor of a leaking-implant victim and awarded her \$1.5

million in punitive damages. "You can't get into trouble by admitting what you don't know or by giving people too much information," observes James O'Toole, a professor of management at the University of Southern California.

■ **Rein in your lawyers.** The most important battle to be fought is not in a court of law. It's in the court of public opinion. That's the key lesson gleaned from James Burke's deft handling of Johnson & Johnson's Tylenol crisis. Accept responsibility. Forget short-term profit-

two parents, neither of which wants to assume responsibility for what happened, appearing to hide from a severe problem.

■ **Make amends to your customers.** You took the right step when you announced that Dow Corning would consider giving financial help to women who wanted to remove the implants for health reasons but could not afford to do so. Now, go the extra mile by setting up an information center where women and their doctors can vent their

feelings, gain information, and settle claims. If patients come in with reports from physicians who document problems caused by implants, write out the checks—even accepting some claims without full evidence.

■ **Appoint independent experts to examine the scientific evidence.** Even before you stepped into the top spot, the board hired attorney and former Carter Administration Attorney General Griffin B. Bell to conduct an internal probe of management's re-

sponse to the crisis as well as the medical evidence. That's fine, but it would be better if a highly regarded research group, such as Battelle Memorial Institute, was asked to look over the scientific evidence. And you should keep the public informed on the progress of these investigations, and then you should make the reports public immediately. If there is justifiable blame, the culprits should be sharply and promptly disciplined.

Above all, remember the tongue-lashing delivered by a federal court judge to top managers of A. H. Robins Co. after the company lost a \$4.6 million lawsuit on its intrauterine contraceptive: "You have taken the bottom line as your guiding beacon and the low road as your route. That is corporate irresponsibility at its meanest." That's a charge Dow Corning can still avoid if you act properly—and fast



CORNING CHAIRMAN HOUGHTON AND DOW PRESIDENT POPOFF SHOULD WASTE NO TIME IN FACING THE PUBLIC—AND GIVING ALL THE FACTS

ability. As Gerald Meyers, a professor at Carnegie Mellon University's business school, puts it: "If you win public opinion, the company can move forward and get through it. If you lose there, it won't make any difference what happens in a court of law."

■ **Face the public.** Dow Corning, a 50-50 joint venture of Dow Chemical and Corning, seems the wayward child of two corporate parents. Two-thirds of its board members hail from its two owners, including Dow President Frank P. Popoff and Corning Chairman James R. Houghton. They should stand beside you to face the public and the facts. Otherwise, you have the prospect of

CRISIS MANAGEMENT: FIVE CARDINAL RULES

- 1 Tell the truth
- 2 Rein in your lawyers
- 3 Face the public and the facts
- 4 Make amends to customers
- 5 Hire an independent research group to examine the data

DATA: BW

FROM THE MIND OF MINOLTA—OOPS, MAKE THAT 'HONEYWELL'

The U.S. company is milking its patent-court victory for all it's worth

Say this for Honeywell: It knows how to press an advantage. On Feb. 7, a federal jury in Newark, N.J., set hearts fluttering in Tokyo when it ordered Minolta Camera Co. to pay Honeywell Inc. \$96 million for infringing two Honeywell patents in its autofocus cameras. Since then, Honeywell executives have made the case a symbol of Yankee ingenuity besieged by trade pirates. Honeywell has even earmarked \$1 million of its award for a "legal defense fund" to help U.S. entrepreneurs fight foreign pinching of innovative ideas.

If Honeywell is laying it on a bit thick, it's easy to see why. After spending six years—and \$14 million in legal fees—the Minneapolis company finally sees payday: It could collect up to \$300 million in back royalties from Minolta and other camera makers.

Honeywell abandoned its own efforts to develop an autofocus 35mm camera in the mid-1970s, though it held on to its patents. Minolta says Honeywell could have been a contender, had the company stuck with it. Instead, when single-lens reflex cameras with autofocus became the rage in the mid-1980s, Honeywell called in lawyers. In 1987, it sued Minolta for patent infringement. Now, it wants an injunction against the sale of Minolta autofocus cameras, which account for 30% of the \$3 billion U.S. market.

CAMCORDERS, TOO? Honeywell may take legal aim at 15 other camera manufacturers—mostly Japanese but including Eastman Kodak Co.—that it believes have also filched its autofocus knowhow. The company is even considering broadening its case to cover the \$2 billion market for video camcorders, where autofocus models are also the rage.

Honeywell's good fortune may mean hard times for camera buyers. "The consumer will have to pay for this," warns Sadahei Kusumoto, chairman of Minolta Corp., the U.S. arm of the Japanese manufacturer. How much? In the Minolta case, Honeywell's award amounted to roughly \$40 a camera.

The stakes help explain why what began as a highly technical patent dispute has become the latest flashpoint in U.S.-

eywell has branded it a high-tech thievery. It noted the jury in Newark had actually concluded that Minolta only violated two technical patents—and without willful intent. Minolta also claims that Honeywell is merely trying to milk the success of its Maxxum camera.

Even more, Minolta executives took umbrage at what they perceived as the thinly veiled attempts by Honeywell to stoke anti-Japanese sentiment on the jury. Honeywell, they point out, hired an Asian actor to portray Minolta executives during the reading of court depositions. By linking the case to larger trade issues, Minolta Attorney George Grainger says, "they want to sue the entire Japanese camera industry and want to intimidate other companies into settling."

Honeywell attorney Michael V. Ciresi describes such charges as "despicable."

He says the jury's verdict turned on key issues involving similarities between Minolta Maxxum design and Honeywell's early autofocus research. Although Honeywell patents were never licensed commercially, the company did enter into agreements that allowed Minolta and other companies to get an early look at the technology.

MORE TO COME? Honeywell has a lot to lose if it pursues a barroom knuckles approach. For one thing, if it continues to strong-arm Japanese camera manufacturers, Honeywell may have trouble maintaining sales for its Japanese joint venture. The company, Yamatake Honeywell Co., is 24.2% owned by Honeywell. Last year, the high-profile joint venture generated sales of about \$1 billion.

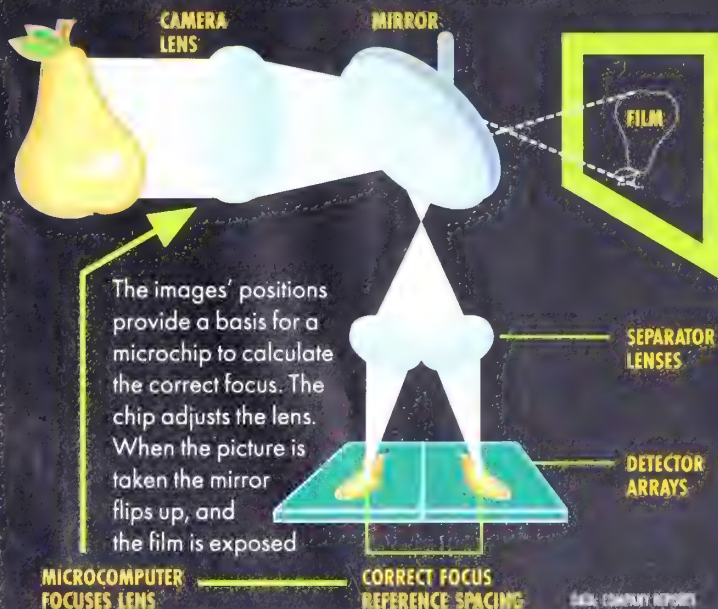
The Honeywell-Minolta skirmish may be a harbinger of all-out legal warfare in big-bucks patent cases, particularly against the archrival Japanese. "A good trial attorney is going to take advantage of sentiments in the air," says Robert Merges, a law professor at Boston University and patent expert. And, these days, there's no shortage of U.S. companies looking for any edge against the Japanese.

By Brian Bremner in Washington, with Robert Neff in Tokyo

HONEYWELL'S \$96 MILLION PATENT

Here's how auto-focus works:

Reflected light from the pear passes through the camera lens. Before it can reach the film, a mirror diverts it through two separator lenses, creating two separate images of the pear on the detector arrays



Japanese trade relations. The International Trade Commission estimates that the U.S. loses \$40 billion each year to technology and product-design pilfering by foreign companies. Intellectual property right protection is a hot issue in current multinational trade talks, and Congress is weighing several measures that would combat the thievery.

Minolta, meanwhile, is fighting back. In a letter to dealers, Kusumoto charged Honeywell is waging "an unfair attack" on Minolta. The company says Hon-



Kelly is pushing a restructuring plan that bondholders say has just a 50% chance of keeping the company out of Chapter 11

RAGED BUYOUTS

DONALD KELLY SETS EGG ON HIS FACE

Envirodyne deal is as shaky as his Beatrice buyout was spectacular

Donald P. Kelly once struck just the right chord with investors. The stocky dealmaker helped make one of the most successful leveraged buyouts ever when he and his partner, Kohlberg Kravis Roberts & Co., bought Beatrice Co. in 1986, then netted \$1 billion for themselves and other shareholders by selling off the pieces. So Kelly teamed up with Salomon Brothers Inc. to buy Envirodyne Industries Inc. for \$720 million in 1989, investors flocked to the deal.

Many of them now regret they followed Kelly into this one. Swamped with debt, Envirodyne on Feb. 3 skipped \$14 million in interest payments. To recover, management has proposed a debt-restructuring plan that some bondholders say has just a 50% chance of keeping the company out of such down-to-earth bankruptcy as sausage casings and plastic casings out of Chapter 11.

UGH LUCK. Envirodyne has been on precarious financial footing since Kelly joined. To complete the company's leveraged buyout, Kelly and several partnerships he controls put up just \$2 million for 3.6% of the company. Salomon Brothers Inc. netted \$38 million for a 69% stake,

then sold 4.9% of Envirodyne to a division of Continental Bank Corp. for \$2.7 million. And Artra Group Inc., which owned 26.3% of Envirodyne before the buyout, swapped its stock for a 27.5% share in the private company and \$75 million in cash. Both Kelly and Salomon have recouped most of their investments through fees paid by Envirodyne: Kelly pulled in \$2.83 million and Salomon \$20.1 million in 1989 alone. Kelly, who is Envirodyne's chairman and chief executive, also collects a \$400,000 annual salary.

With such a thin layer of equity, "everything had to go just right," notes Daniel Smith, portfolio manager of Van Kampen Merritt's high-yield fund. Envirodyne hasn't been that lucky. The company had trouble passing along higher costs on its petroleum-based products, for instance, when oil prices soared before the gulf war. And in late 1990, an Envirodyne product used to wrap fresh meat was discovered to contain traces of benzene. Margins

took a drubbing, as the company scrambled to woo leery customers. The result: Operating cash flow in 1991 fell 6%, to \$106.6 million on sales of \$552.5 million, says Bruce Klein, an analyst for Donaldson, Lufkin & Jenrette Securities Corp.

Things are expected to improve this year, thanks to solid sales of core products and new manufacturing capacity in Europe. But long-term debt keeps climbing, from \$719 million in 1989 to about \$850 million now. The cash squeeze reached a crisis this month, when Envirodyne faced drawing down all of its remaining cash and tapping out its credit lines to make \$33.3 million in lease and interest payments—including the \$14 million due Feb. 3. Says a source close to Envirodyne: "It's a classic example of good company, bad balance sheet."

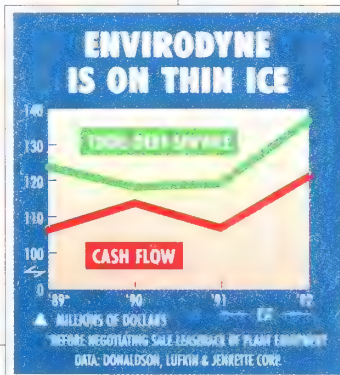
Now, with both his reputation and the company at stake, Kelly seems determined to forge a deal. Envirodyne has asked bondholders of its two subordinated issues to forgo interest payments valued at a total of \$120 million for the next three years in exchange for 50% of the equity, says a company spokesman. Kelly couldn't be reached for comment.

SHARE THE PAIN. Bondholders have plenty to say about the proposal, little of it pleasant. "We don't like the plan because the senior debtholders aren't giving up anything," says James Woods, chief investment officer for Security Benefit Life Insurance Co., which holds \$3 million worth of Envirodyne's most junior debt issue. Moreover, Woods wants shareholders to share more of the pain. He proposes that they turn over at least 63% of their equity, while some creditors are calling for as much as 80%.

Others fret that the plan is just a short-term fix, since it only delays interest payments instead of eliminating debt. "Unless you solve that problem, it doesn't appear to me to be fixing the long-term capital structure," says Evan I. Mann, an analyst for Dillon, Read & Co. Says an Envirodyne spokesman: "We are willing to listen to alternatives. Nothing is carved in stone."

Wall Street is betting that the company will carve out a deal. Since announcing the interest-payment freeze, the company's three debt issues have each lost just a few points. On Feb. 12, they were trading at 43% to 57% of par value. Still, there's little chance that Kelly can emerge from the deal unscathed. That could make it tough to find investors ready to go along next time. Says one bondholder: "He won't be a piper anymore."

By Lois Therrien in Chicago



MUTUAL FUNDS

THE SEC FLAGS JOE MONTANA

It vetoes Franklin's ads for mutual funds featuring the quarterback

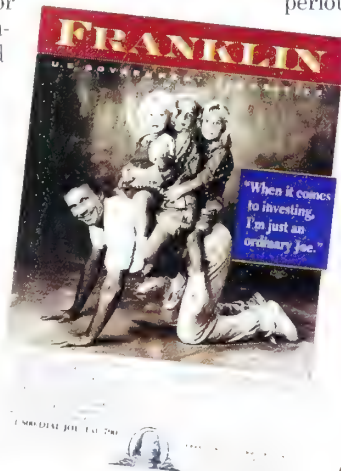
That Joe Montana has it all, doesn't he? Super talent, beautiful wife, three delightful daughters. Saw him with the kids in an ad for some mutual fund. Come to think of it, haven't seen those ads lately. Wonder what happened?

What happened was that the Securities & Exchange Commission threw a penalty flag on Franklin Group, the mutual-fund company that the San Francisco 49ers superstar represents. It seems the SEC didn't care for the six different ads in which Montana, his wife, Jennifer, and their daughters appeared. The ads, which ran from last August until Dec. 31 in magazines including *BUSINESS WEEK* and *Money*, promoted funds for retirement planning, college planning,

and equity investments. The one for college planning even urged readers to call 1-800-DIAL JOE for more information.

The SEC, it's safe to say, has nothing against gridiron heroes. But a 1940 law prohibits testimonials for investment advisers. Mutual funds are required by law to hire investment advisers, so by extension the SEC applies the ban on testimonials to funds, too. Franklin, for its part, says that it would have kept running the ads had the SEC not stepped in. Its original contract with Montana was for one year, though neither the company nor the quarterback's agent will say if the deal is still in place.

Endorsements from the rich and famous may still have a home on the financial pages, though. The trick is to make sure that your celebrity is the representative of an investment firm as a



MONTANA AND HIS DAUGHTERS

whole, and doesn't just endorse a particular product. That's how Smith Barney Harris Upham & Co. escaped the ire of the SEC. From 1979 to 1987, the late actor-director John Houseman pitched

seriously for the firm—"V e a r r r r r r n it," he would say. "Remember? 'It was never an issue,' says Smith Barney spokesman Robert Connor. "We weren't using a person to endorse any one single product. We were using a spokesman simply to represent us."

There's no indication that Montana will play a similar role for Franklin. That may disappoint fans of the quarterback whose ailing right elbow forced him to sit out the entire 1991 football season. If his admirers want to see him before training camp starts next summer, they're better off looking for trading cards or cereal boxes.

By Gail DeGeorge in Miami

TELECOMMUNICATIONS

NOT JUST A YUPPIE TOY

Cellular phone revenues are up 28%, and users have doubled since 1989

When the U.S. economy plunged into recession in 1990, stocks of cellular phone companies were not far behind. Shares of McCaw Cellular Communications Inc. lost two-thirds of their value between June and October. Contel Cellular Inc. fell 54%, and Metro Mobile CTS Inc. lost 64% over the same period. The problem? Investors worried that cellular phones weren't much more than yuppie toys and would be among the first luxuries jettisoned in the downturn.

It sure hasn't turned out that way. While official 1991 results aren't in yet, New York market researcher Link Resources Corp. figures cellular revenues climbed 28% to \$5.82 billion in 1991. Even better: It estimates the number of cellular subscribers reached 7.66 million by the end of 1991, up 45% from the year earlier and more than doubling since 1989.

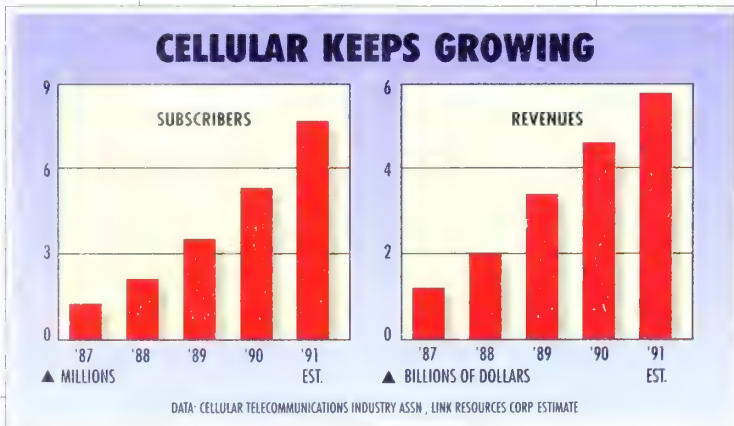
Adding subscribers has more than compensated for lower usage by customers whose style has been cramped by the recession. The cellular subsidiaries of the big phone companies, which dominate the industry's top-10 list, actually increased their profitability during the recession. For example, BellSouth Corp.'s operating income from domestic cellular and paging operations jumped 157% in 1990 and another 39%, to \$149 million, in 1991. Even in the downturned-

den Northeast, Nynex Mobile Communications Co.'s operating income rose 25% in 1990 before slipping 19% last year, to \$48.5 million.

INNOVATIVE ADVANCE. McCaw, the highly leveraged market leader, is still spilling red ink as expected, but it's reporting positive cash flow and progress toward profitability. With cellular stock bouncing back toward their prerecession highs, McCaw in January decided to cash in by announcing plans to raise \$335 million through an issue of convertible preferred shares. "We've been extremely pleased with how we've weathered the recession," says McCaw Vice President Robert Ratliffe.

Now, a burst of innovation and technological advances is providing fresh evidence of the cellular industry's vitality. On Feb. 7, Bell Atlantic Mobile System Inc. announced that it and Motorola Inc. would test in Pittsburgh a small, handheld "personal communicator." It can do triple duty as a cordless phone in the home, a wireless adjunct to the office phone system, and a conventional cellular phone on the road.

Three days later came two announcements of high-powered partnerships. Motorola Chairman George M.C. Fisher and Northern Telecom Ltd.



"If everybody says they have open systems, how can you tell who really does?"

It's not that all those companies don't mean it when they say they have open systems. It's just that everybody means something different.

So, where does that leave you standing? Most likely, trying to figure out the biases of the players and sorting out what will work best for your company, from the CEO to the PC gurus to the secretarial pool. Here's our take on the situation.



Five blind men and an elephant.

One blind man thought the elephant's leg was a tree trunk, one thought the elephant's trunk was a snake, and so on.

It's the same with open systems. Some people think UNIX equals open. The only problem is, everybody seems to have their own improved version of UNIX, so you may discover that what you thought was an open system isn't really that open.

Then there are the people who figure if you can plug this hardware into that, then you've got an open system.

Now, we agree that compat-

ible hardware is part of the open systems story. But it doesn't stop there. After all, isn't hardware without software something like a body without a brain?

To get the whole story, one has to backtrack a bit.

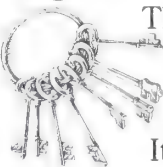
Some history. Some philosophy.

Part of the story is that we got there first. In 1981, we got together with IBM and the Intel people and launched the PC.

We also chose to make MS-DOS[®] widely available to hardware manufacturers and software developers. And, one after another, they decided to adopt it.

As more and more people took advantage of these computers and applications, MS-DOS emerged as the operating system of choice—quite literally.

Which we believe is the same reason that the Microsoft Windows[™] operating system has caught on.



This accessibility of technology spurs competition, which spurs innovations.

It's your basic Adam Smith free marketplace scenario.

Open is as open does.

The result: today, you have even more choices at better prices. Hardware manufacturers now

offer you over 1,000 different models of Windows-compatible PCs.

Developing programs for Windows has never been easier. As a matter of fact, there are about 5,000 Windows-based applications from which you can choose.

We, in turn, foster a dialogue with those software developers, which pushes the technology forward even faster.

And there are other options: a range of monitors, printers, fax modems, and of course, the mouse.

In short, we believe an open operating system sets a consistent standard for everybody.

More important, it lets you pursue your own ends, without having to worry about what plugs into what, whether applications are compatible, and so forth.

Which gives you and your company freedom of choice in finding the best way to fulfill your personal computing needs.

In our book, that's what an open system should be all about.

[Some systems are more open than others. To find out more, call (800) 992-3675, Dept. Y98. We'll send you a free brochure, "How to choose the system with the most choices."]

Microsoft

Chairman Paul G. Stern unveiled plans to supply equipment jointly to cellular-phone companies in the Western Hemisphere. Later that day, five big cellular operators announced that they intended to launch a national brand of tightly networked cellular operators that would rival the McCaw-led Cellular One coalition of carriers.

ESCALATING DEMANDS. With all three gambits, the cellular industry is hoping to satisfy a body of customers with escalating demands. Subscribers are no longer satisfied with a cellular phone that simply allows them to make and receive calls while tooling about town. These days, they want calls to reach them automatically wherever they are—in their home, at the office, or in a distant city. And wherever they move, they want to be able to use all the features that they pay for, including conference calling and voice mail.

Cellular executives hope that meeting

Customers want services from conference calling to voice mail to be available wherever they go

these demands will spur a third of American households to get mobile service by the turn of the century. Right now, the figure is less than 10%.

Seamless networking doesn't come cheap. It requires heavy investment in computer technology, such as the data bases that keep track of where customers are and what features they subscribe to. That's why radio-frequency expert Motorola linked up with Northern Telecom, which is far more advanced in switching and data-base technology. Computer power is also behind Bell Atlantic Mobile Systems' personal-communicator service in Pittsburgh. Every time the phone changes location, it will send out a radio alert to BAMS's sister company, Bell of Pennsylvania. When a call comes in, Bell will give instructions on how to reach the wandering phone.

With such projects under way, plus the expensive transition to higher-capacity, higher-quality digital radio gear, it's no surprise that the cellular industry will have to increase investment spending 20% to 30% annually in the next five years. But racing to keep up with customer demands is a problem that any industry enjoys—especially an industry that has weathered its first recession in high style.

By Peter Coy in New York

PEOPLE

MARRIOTT RESERVES A CORNER SUITE FOR STEVE BOLLENBACH

Trump's former No. 2 will work to trim a \$3.2 billion debt

Few people were surprised last August when Stephen F. Bollenbach of the Trump Organization stopped by the Creditors' Ball, New York attorney Robert M. Miller's annual bash in the Hamptons for bankruptcy lawyers. Miller, the advocate for angry bondholders in the restructuring of Trump's Taj Mahal casino, had bargained long and hard with Bollenbach, Donald J. Trump's chief financial officer. But Bollenbach's deft diplomatic touch kept the disagreements from becoming disagreeable. "He's a tough-nosed negotiator, but he also knows how to deal with people," says Miller.

Both skills will come in handy in his new job. On Mar. 2, he'll leave Trump to become CFO of Marriott Corp., moving from one nearly completed restructuring to one in progress. Marriott needs to sell \$1.3 billion in assets and trim its \$3.2 billion in debt by nearly half—a task that could take years. "Smooth sailing makes poor sailors, but he has been working at some tough jobs that have made him a good sailor," observes Joseph J. Doyle, hotel analyst with Smith Barney, Harris Upham & Co.

DEMANDING BOSSES. Bollenbach, 49, long has been an ideal No. 2 man, providing financial knowhow and a soothing style to sometimes difficult entrepreneurs. "He has done a wonderful job," says Trump. Bollenbach endeared himself to his boss by persuading bankers to reduce Trump's personal liability for



RESUME: STEPHEN F. BOLLENBACH

BORN

1942, Los Angeles

EDUCATION

B.S., Finance, 1965, UCLA, ; MBA, 1968, California State University, Northridge

EMPLOYMENT

1968-75 various finance jobs, the Ludwig Group

1975-80 CFO, Ludwig Group

1980-82 Chairman, Southwest Savings & Loan Assn., Phoenix

1982-86 Treasurer, Marriott

1986-90 CFO, Holiday Corp.

August, 1990-March, 1992 CFO, Trump Organization

March, 1992 CFO, Marriott

DATA BW

their loans from over \$800 million to about \$165 million.

Before joining the developer, Bollenbach worked in the shadow of Michael D. Rosenthal, chief executive of Promus Cos. There, in 1987, when Promus was still known as Holiday Corp., the financier fashioned a recapitalization that paid out a dividend of \$65 share—a total of \$1.3 billion. The move ended a takeover scare that started when Trump, of all people, bought a large stake in Holiday.

Bollenbach learned early on to deal with demanding bosses. In 1965, he joined publicist-shy mogul and investor Daniel K. Ludwig to help run savings and loan associations in the West. From 1980 until 1982, he served as chief executive of the Ludwig Organization's Phoenix thrift. In the late 1980s, well after Bollenbach left, that unit failed and was seized by the government.

His move to Marriott is a homecoming of sorts. He was treasurer of the hotelier from 1982 to 1986

when it built nearly 10,000 hotel rooms annually, then sold them and took back management contracts. The strategy which Bollenbach helped to formulate worked wonders for the corporation until 1986, when the hotel buyers lost their tax advantage.

Although the tax-law change saddled Marriott with unwanted properties, Chief Executive J. Willard Marriott Jr. doesn't blame Bollenbach. He was more than willing to take his former associate back this year when a go-be-

K. Let's get down to business. 24 hours. That's all we get. And still for some, it's just not enough. Now of course, we GTE don't presume to tell you how to spend your time. Just how to save it. The way we see it, the phone is the shortest distance between a problem and a solution. Unlike a memo or business letter, it allows you to deal with problems immediately. And get results immediately. Compared to a personal sales call, it not only can save you a bundle of time, but a bundle of that other precious commodity. It lets you sell faster. Distribute faster. Collect money faster. Go to work faster. See your front door faster. Need we go on? **Make the call.** Because after all, it's about time. Isn't it?

time is money,

this is a bank.



THE POWER IS ON

tween inquired on Bollenbach's behalf.

Straightening out Marriott's finances will take patience. No big loans come due until 1995, but Marriott's annual debt service, while not bad by current standards, is a worrisome \$245 million. That's more than a third of the company's \$700 million annual cash flow.

Don't expect quick asset sales. The glut of rooms is so great, says one hotel

executive, that Bollenbach will be lucky to start selling inventory by the end of 1993. But Bollenbach may have something up his sleeve. "He brings a new level of creativity to the financial side of our business," says Marriott. "He may put us in a position to access additional sources of capital that we may not have been privy to before."

Bollenbach says he would "like to

spend the rest of my career" at the hotel company. But not as successor to Marriott, 60. "Flattering, but not in the cards," he avers. "I'm really just interested in doing the job I have, which is CFO." But with his track record, a top post somewhere wouldn't surprise the crowd at the Creditors' Ball.

By Joseph Weber in Philadelphia, with Dean Foust in Washington

SPORTS BUSINESS

AH, ALBERTVILLE: A SWEET SURPRISE FOR CBS

The winter games are drawing unexpectedly high ratings, if not profits

Sipping wine and mineral water and schmoozing with sponsors under tents in snowy Albertville, France, CBS executives are loving the 1992 Olympic Winter Games. But a couple of weeks ago, the folks at Black Rock weren't feeling so festive.

CBS spent a pile of money to buy the rights to the winter games, then ran into trouble selling commercial time at full prices. Advertisers were concerned because other big CBS sporting events, the Super Bowl and the late-March college basketball championship, are already stretching their resources. Moreover, since France is six hours ahead of Eastern Standard Time, American viewers could learn results of the events before they sit down to watch them. "We were dubious," says John H. Bennett, senior vice-president for events marketing at Visa USA, an Olympic sponsor.

But now, Visa and the network's other advertisers are believers. Ratings for the first four nights have run higher than most people expected—CBS scored an average 19.7 in ratings and 30 in audience share through Feb. 12, far above the 17 rating it guaranteed advertisers. (One rating point equals 431,151 households. Audience share is the percentage of households whose televisions are tuned into a show.) "There's not even a real story of some American coming out of nowhere doing something magical, and CBS is still doing great numbers," says Paul Schuman, a media buyer who bought time for Ralston Purina, CNN, and ITT. Only gold medal speed skater Bonnie

Blair "has done what she was supposed to do. If they had a great story, they could really milk it."

Naturally, CBS is elated. "This performance is significantly above our preliminary expectations," says David F. Poltrack, senior vice-president for planning and research at CBS. "We thought the Olympics had the potential of being strong, but it was very hard to convince Madison Avenue of that."

Another New York thoroughfare, Wall Street, may still have its doubts. CBS, which last year lost \$86 million after taxes, paid roughly \$243 million for the Albertville games. And there's no way the network can make back that much by selling advertising time, reckons Alan J. Gottesman, a media analyst at PaineWebber Inc. So once again, CBS is losing money on sports, just as it has with Major League Baseball, the Nation-

al Football League, and college basketball. Still, says Gottesman, "at least CBS has proven they can pull it off."

Oddly enough, viewers may be the least satisfied spectators. Certainly they've been tuning in, but many have complained about the prime-time host's morning-show regular Paula Zahn and sportscaster Tim McCarver. The two who have never covered the Olympics before, are shown elegantly dressed and engaged in stilted banter in a large room rather than bundled up on the French slopes. Says Bradley Purcell, 31, a research analyst at Lazard Frères & Co. in New York: "The discussions between Paula Zahn and Tim McCarver are terribly contrived." He's not planning to switch the television off but says: "I try to hit the mute button faster when Paula and Tim come on."

'IDLE CHITCHAT.' Then, there's all the filler on everything but sports. "I want to see the Olympics, and what do I wind up watching? A lot of idle chitchat," gripes Janice Bulleri, a San Francisco office manager and mother of three. Bulleri tuned in to see the speed skating. Instead, she says she was subjected to "45 seconds of skating followed by four commercials, interviews of hometown people followed by commercials, and another 45 seconds of skating."

CBS says those beefs are old stuff. "In the first couple of days, there isn't that much compelling footage because the games have just started," says Poltrack. "You don't have the really exciting events like medals and ceremonies. But as the Olympic progress, you'll see less and less features and more and more action."

If that's the case, viewers will probably stay tuned for the remainder of the games. And if some Americans—the hockey team, for example—storm their way onto the medal stand, CBS could post some golden numbers.

By Laura Zinn in New York with Walecia Konrad in Albertville and bureau reports



AMERICAN GOLD: SPEED SKATER BLAIR HEADS FOR THE FINISH LINE

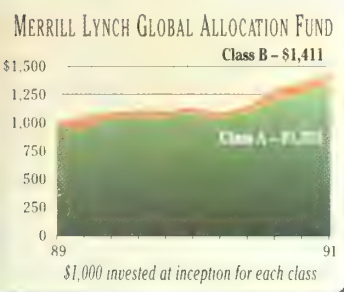
Country Mouse, City Mouse

**For mutual fund investors, the moral is:
To help expand your rewards, expand your horizons.**

There was once a country mouse who was comfortable living in a dark, warm barn. He was content with simple fare—a stalk of wheat, an ear of corn.

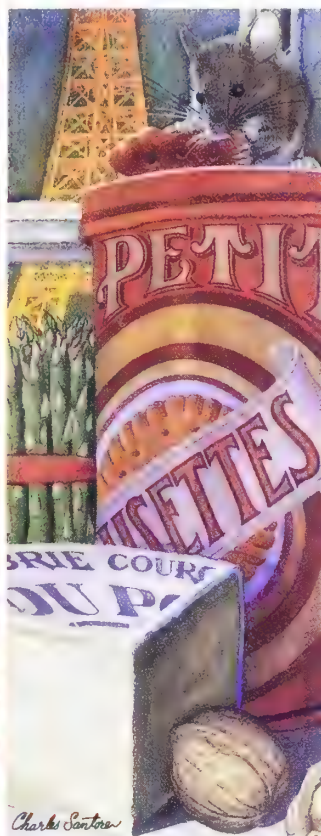
There was also a city mouse. His quest for reward led him to exotic locales where he found a veritable feast.

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In Business This Week

EDITED BY HARRIS COLLINGWOOD

LET THEM EAT PROXIES

Sampling CEOs' views on shareholder democracy may be akin to asking foxes about henhouse management, but it's probably worth knowing what the boss thinks. The National Association of Corporate Directors surveyed 653 CEOs for their views on the hottest issues in corporate governance. Here's a sample of what the NACD learned:

Shareholders should have the opportunity to:	Percent saying 'yes'
Nominate board candidates	72%
Vote on the tenure of management	20%
Shareholders should be allowed to vote on:	
Golden parachutes	50%
Director compensation	20%
Top officer pay	8%
Would you require a board chairman separate from the CEO?	23%

DATA: NATIONAL ASSOCIATION OF CORPORATE DIRECTORS

WHAT'S GOOD FOR GM IS GOOD FOR US ALL?

► General Motors wants to help those who want to help GM. On Feb. 10, the company began a 90-day matching-rebate program for automotive suppliers that offer incentives to their employees who buy a new GM vehicle. For example, if XYZ Bumpers offers \$500 to any employee who buys a GM car, GM will either pay XYZ \$250 or pay \$500 to the employee who bought the car. GM's plan covers all GM vehicles—domestic and imported.

FEDIX HEADS FOR ANOTHER BATH

► Call it Son of ZapMail. Five years after Federal Express took a \$300 million charge to close down its money-losing

facsimile delivery system, the Memphis company may be close to taking another big bath—this time to stem losses in Europe. The package-delivery carrier conceded as much on Feb. 11, when in reaction to a runup in its stock price, it disclosed that it's considering restructuring its international business or entering into a joint venture.

Analysts say FedEx could piggyback on the hub-and-spoke system being operated in Europe by Australia's TNT and several state-owned postal systems. The pressure is mounting on FedEx to resolve the issue soon. Analyst James Parker of Robinson-Humphrey in Atlanta estimates that FedEx's pretax international loss could total \$80 million in the current quarter.

MORE ACTION ON THE OZONE LAYER

► The Bush Administration is showing fresh concern over the ozone layer. Less than a week after disclosure of new evidence that the earth's protective ozone layer is being destroyed, President Bush pushed up the deadline for makers of chlorofluorocarbons (CFCs) to stop producing the ozone-depleting substances. On Feb. 11, Bush pledged to eliminate CFC production by 1995, five years ahead of the date set in a 1987 international accord.

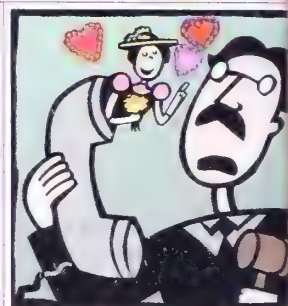
'HI, I'M KRISTI. READ ANY GOOD BOOKS LATELY?'

We've heard of deceptive advertising, but this one takes the biscuit. It seems that some of those 900 numbers that promise raunchy talk deliver something closer to tea-party chitchat.

Intrepid researchers at Consumer Action, a San Francisco watchdog group, have been looking through the back pages of *Hustler*, one of the scuzzier skin magazines, noting what the ads for the 900 lines offer by way of scabrous conversation. They've called the numbers to see what's actually said.

There's quite a difference. One ad screams: "Live! Live! Talk live to luscious friendly ladies." Call the number given, and you'll reach a lady—but she won't discuss sex. Consumer Action found other offenses, but the ad copy isn't printable.

The group urges the government to monitor the lines and enforce truth-in-advertising laws. That's O. K. in principle, but should bureaucrats be making smut calls on taxpayer time?



Environmentalists weren't impressed. "Industry was so far ahead [of schedule] that the President had no excuse for inaction," says Daniel Becker, a Sierra Club lawyer.

BIG BLUE GETS A BIG WORRY

► IBM has new reason to worry: Its largest computer buyer is snuggling up to AT&T. General Motors' Electronic Data Systems has agreed to resell and service the entire product line of NCR, AT&T's computer unit. The agreement, limited for now to the U.S., gives EDS access to a

broad range of computers and software, from laptops to new mainframe based on hundreds of microprocessor working in parallel.

In the past, EDS has used mostly IBM or IBM-compatible mainframes in the systems it has designed. But now plans to work alone and with NCR in creating networks of computers that can do away with traditional mainframe altogether.

THE GUNS AIMED AT A FIGHTER PLANE

► Cost overruns could jeopardize a potentially huge Navy contract held by McDonnell Douglas. Development of the E/F, a new version of McDonnell's F/A-18 Hornet fighter attack plane, could run as high as \$8 billion, twice what the Navy had estimated earlier, congressional sources say. Some Navy brass want to cancel or scale back the carrier-based E/F because its high price tag might imperil funding for the A-X, an attack plane that would replace aging Grumman A-6 bombers. The E/F, which is scheduled to go into production in 1990, could generate up to \$2 billion in revenues annually for McDonnell Douglas.



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400L's lightweight alloy V-8 generates a heavyweight 268 hp.



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How the 400E is destined to be seen by other sedans.

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The 500E Sedan shown on the cover of this insert – 322-horsepower performance and all – is an engineering exercise in very restricted production, built for a specialized purpose and a specialized sporting clientele.

The somewhat more mainstream V-8 performance sedan it inspired – the new 400 E – is now in authorized Mercedes-Benz dealer showrooms, awaiting your inspection and test drive.

See your authorized Mercedes-Benz dealer today. Or for more information about the 400 E, call 1-800-662-3001, toll-free, anytime.



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HOW A DEMOCRATIC DARK HORSE COULD STILL GET OUT OF THE GATE

The Democratic Party's nightmare is vivid: Arkansas Governor Bill Clinton, beset by scandal, loses the New Hampshire primary to former Senator Paul E. Tsongas of Massachusetts. Clinton fails to bounce back in the heavy fund of March primaries, and Tsongas carries little momentum out of New England. With nearly half the delegates locked (chart), the Democrats see their White House chances as a crippled field stumbles toward the July convention. To worried Democrats, this vision is beginning to look all too real. That's why the party is buzzing about how a heavy-eight candidate—House Majority Leader Richard A. Gephardt of Missouri and Senator Lloyd Bentsen of Texas are the current favorites—could jump in after the Feb. 18 New Hampshire vote. "I'm stunned to find myself thinking it could happen," says liberal activist Ann F. Lewis. "The odds have moved from 1,000-to-1 to 10-to-1."

POPHOLES. Potential candidates are demurring, at least until after Granite State voters render their verdict. But that's not stopping speculation about how to overcome the hurdles that a late entrant faces. Poles are giving the party's delegate-selection rules a close over-look. Theoretically, any candidate who enters after Feb. 18 will find two-thirds of the 3,516 elected delegates already out of reach. Filing deadlines have passed in such big states as Texas, Florida, New York, and Illinois. Activists, however, believe that where there's a will, there's a way.

Indeed, Jonathan B. Sallet, legal counsel to the Democratic Party's rules committee, cites a half-dozen ways a late starter can garner delegates. The most obvious: Urge voters to write his name—a technique that polls show could pull 20% or more of the New Hampshire vote for New York Governor Mario M. Cuomo. A candidate also could go after uncommitted delegates: "Uncommitted" is on the ballot in at least 11 states. And a late starter could woo delegates pledged to candidates

who have dropped out. In addition, nearly 20% of delegates will be unpledged elected officials and party leaders.

The rules also contain a "vote your conscience" loophole that could help get a new campaign going. Delegates are urged to honor their pledges on the first ballot—unless conscience dictates otherwise. Says Lewis: "The rules should give way if they collide with the will of the electorate."

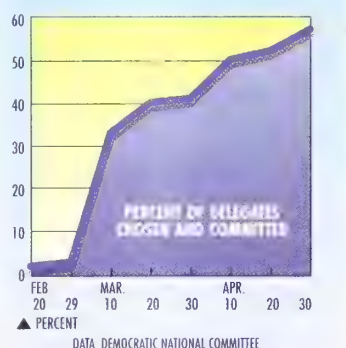
Even if a national figure does emerge to displace the current crop of regional candidates, however, the costs to the Democrats could be high. The efforts of party leaders to anoint a late-starting nominee would be sure to raise charges of a back-room deal. Conflict between party regulars and reformers, who have been fighting for 25 years to reduce party officials' control over the nominating process, could produce an ugly convention. And the turmoil would expose deep rifts in the party that have been obscured by George Bush's weakness.

RUSH JOB. As if that's not daunting enough, Democrats still have to pick Mr. Right from a short list. The late entrant would have to create organizations in a dozen states and a national fund-raising network overnight. "It almost requires that it be someone who has run for President before," says Carter White House aide Stuart E. Eizenstat.

Both Gephardt and Bentsen gained national experience in 1988, Gephardt as a Presidential contender and Bentsen as the Vice-Presidential candidate. Both have disavowed interest, but, conveniently, both are now in the spotlight as Congress works over Bush's economic proposals. "If Clinton doesn't win New Hampshire, I don't see anyone in the field who can beat Bush," says a Democratic operative. "The pressure on Gephardt and Bentsen would be enormous." And so will the risks for a party that sees a tempting chance to topple Bush—but has few contenders up to the job.

By Paula Dwyer with Douglas Harbrecht

LITTLE TIME FOR LATE ENTRANTS



CAPITAL WRAPUP

COMPETITIVENESS

A quiet shake-up is under way at the Vice-President Dan Quayle's Council on Competitiveness. Allan B. Hubbard, who has been criticized for alleged conflicts of interest on regulatory issues, has relinquished his post as executive director. David M. McNish, Hubbard's deputy, moves into the top job. Hubbard will stay on as Quayle's deputy chief of staff but will focus on coordinating the Vice-President's reelection effort. Quayle aides promise that the shuffle, which is part of a restructuring of council operations, will mean more openness. The council has drawn fire from congress-

sional Democrats, environmentalists, and others for reviewing key decisions of regulatory agencies in secret. But expect no change in the council's mission: reining in regulatory costs to business.

EXECUTIVE PAY

The Bush Administration might move to allow shareholders more say in influencing how much corporate executives are paid. The White House is still against giving stockholders a voice in setting actual salaries. But it might back moves to ease current rules: They prohibit most shareholder resolutions that seek to influence executive pay policies.

THE SENATE

Family gatherings may get a bit tense at the home of Senator Howard Metzenbaum (D-Ohio). Joel Hyatt, the 41-year-old co-founder of J. D. Hyatt Legal Services—and the senator's son-in-law—is mulling a run for the seat in 1994. He says he would be more moderate than his liberal father-in-law. Trouble is, Metzenbaum, 74, may seek a fourth term. "He hasn't made up his mind yet," says a spokesman. Hyatt is a political neophyte, but he is media savvy, and he stars in ads for his chain of storefront law offices—including one crediting Abraham Lincoln with the concept of low-cost legal aid.

It's time for a change to Gallo.

This roast lamb with fresh raspberries deserves the richness of our 1985 Cabernet Sauvignon. Its complex, oak-aged flavor makes it a perfect complement.





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BUSH BULLS AHEAD ON FREE TRADE WITH MEXICO

But public worry over loss of American jobs could mean tough opposition in Congress

It's a gambit few thought George Bush would try in the heat of a Presidential campaign. He's already wading through an economic quagmire, and Democrats are taking potshots at his trade policies with Japan and Europe. Undaunted, he plans to send Capitol Hill a controversial free-trade pact linking the U.S. to Mexico and Canada. Declares U.S. Trade Representative Carla A. Hills: "Politics is not a cause for delay or derailment."

Bush is gambling that free trade's promise for exports and growth will win out over widespread doubts. The political payoff: a "yes" vote by the Democratic-controlled Congress would hand the President a major election-eve victory. But Bush is running a big risk. Democrats have warned that opening the border in an election year may trigger a bitter battle over job losses to low-wage, polluting industries in Mexico.

The crunch starts on Feb. 17 in Dallas, where 400 negotiators from the U.S., Canada, and Mexico will convene for a marathon bargaining session to complete a draft North American Free Trade Agreement (NAFTA).

They'll be wrestling with such thorny issues as local-content regulations, a phaseout of tariffs on everything from avocados to petrochemicals, and methods to resolve future trade spats (table).

URGENCY. A provisional pact could reach Congress by April. For it to fly, it will probably have to make concessions to congressional opponents on issues such as safeguards for farmers and vulnerable industries such as glass and textiles. And the Mexicans' hunger for a deal means they are likely to yield to key U.S. demands, such as raising hurdles for investors outside North America.

One reason for the urgency is the paralysis in the five-year effort to open global trade barriers under the



A FORD PRODUCTION LINE IN HERMOSILLO

THE CONFLICTS IN THE TRADE TALKS

Issue	What the parties want
TRANSITION PERIOD	Americans want to cut tariffs to zero over 10 to 15 years; Mexicans want to go faster in most cases
RULES OF ORIGIN	The U.S. wants 60% to 70% North American content in autos; Mexico and Canada aim for 50%
BANKING	U.S.-owned banks want equal treatment in Mexico; Mexico wants time for privatization to take hold
AGRICULTURE	California avocado growers to Louisiana sugar kings want long phase-in periods; Mexico wants quick access to the U.S., but protection for its corn farmers
OIL	U.S. and Canada want freer investment in petrochemicals, an end to Mexican gas and electricity subsidies. Mexican law bars a foreign role in oil production

DATA BW

General Agreement on Tariffs & Trade (GATT). That could leave NAFTA as Bush's only major initiative in international economic policy. Moreover, "regardless of how GATT goes, ultimately it's a good idea to have a NAFTA," says Joseph T. Gorman, chairman of automotive and aerospace manufacturer TRW Inc.

Although the political timing is chancy in the U.S., it can only get worse in Mexico and Canada. Mexican President Carlos Salinas de Gortari, a free-trade advocate, can't run for reelection when his term expires in 1994. And Canadian

Prime Minister Brian Mulroney, whose approval rating has fallen below 20%, faces the voters next year at a time when opposition to free trade is rising.

Within the Administration, free trade is an article of faith. Robert A. Mosbacher, who chairs Bush's reelection effort, and Secretary of State James A. Baker III, insist that NAFTA is crucial to maintaining the U.S. export boom. The two Texans like to point out that free trade with Mexico is popular along the border, especially among Hispanics in vote-rich California and Texas.

But some recent Administration actions have won few converts on the Hill. In spite of promises to ease the strains caused by opening the borders, Bush's 1993 budget would even delete funding for existing trade-adjustment assistance programs. These are designed to help workers whose jobs are wiped out by imports. "Even the Administration has to realize that's not going to wash," says Mark Anderson, a lobbyist for the AFL-CIO, which opposes the accord.

Nor did news from Mexico reassure U.S. labor. On Jan. 31, Salinas' police arrested a Matamoros union leader after he led a successful strike by workers in a maquiladora, or border plant.

U.S. corporate enthusiasm for the accord is strong, however, and the White House is counting on the business lobby to push a bill through. Mexico is becoming "the most important investment site in the world" for small and medium-size U.S. businesses, says Willard A. Workman, director for international policy at the U.S. Chamber of Commerce.

BIRTH NEGOTIATOR. Yet others are worried that Japanese companies will move faster to take advantage of the opening. "I would not want Mexico to become a launching pad for more Japanese production," warns Robert A. Lutz, president of Chrysler Corp. To avoid that, U.S. carmakers want a stiff local-content requirement: To qualify for duty-free status, 60% to 70% of the value added to each car would have to be North American parts or labor. "It might be high enough so that you get the guts of the automobile—at least the mainwork—performed in North America," TRW's Gorman says. But to lure foreign investment, Mexicans want the content requirements kept to the 50% level adopted in the 1988 U.S.-Canada Free Trade Agreement.

In effect, Japan has become the North party at the negotiating table. Nearly all U.S.-made laptop computers now incorporate Japanese flat-panel displays. As a result, U.S. computer makers oppose an Administration proposal that laptops must include screens made in North America to qualify for duty-free status. Tying origin requirements to a single component "sets an outrageous precedent," complains William Fahey, Apple Computer Inc.'s manager for international government affairs.

Congressional Democrats are still skeptical that negotiations will produce a pact they can live with. If Bush's all-or-nothing push is rebuffed by Congress, the result could be a setback to free trade that lasts long after the election bubble has died down.

By Paul Magnusson in Washington, with Mary Farquharson in Mexico City, Zachary Miller in Cleveland, and David Woodruff in Dallas

Commentary/by John Templeman and Bill Javetski

HAS QUAYLE'S GAFFE GOTTEN THE GATT TALKS GOING?

George Bush spent days backpedalling from what seemed to be yet another Dan Quayle gaffe. At a Feb. 9 defense conference in Munich, the Vice-President made remarks that were interpreted to threaten a U.S. pullout from NATO if Europe maintains its farm subsidies and torpedo a world trade deal. That touched off a tempest from Potsdam to Paris.

Whatever he said, Quayle actually may have done transatlantic relations a service. By highlighting the importance of a world trade agreement, Quayle has underlined what should be the key

U.S. strategic goal in the post-cold-war world—working out a new economic and political arrangement in which Europe pays more for its security. However clumsily, he was also sounding a warning of what could be a very damaging backlash in the U.S. should the trade talks fail.

The outcome of the current General Agreement on Tariffs & Trade round, set for April, could determine whether the U.S., Europe, and Asia move toward a freer trade regime or lurch toward protectionist trade blocs. That, in turn, will help define where the U.S. fits in a Europe no longer threatened by the Warsaw Pact. To a large extent, Western Europe's future security won't depend on troop levels but on the ability of fledgling democracies in Eastern Europe and the former Soviet Union to trade their way out of decades of Communist stagnation.

STODGY BUREAUCRATS. Names such as GATT and NATO are normally not front-burner issues in U.S. Presidential races. But with Washington facing a \$400 billion budget deficit and the economy in recession, a failed GATT round would reinforce the arguments of Presidential hopefuls Patrick J. Buchanan and Tom Harkin that international cooperation is costly and doesn't work. As Senator William S. Cohen (R-Me.) put it at the Munich conference, the

prevailing view in America is that NATO is "no longer necessary, relevant, or affordable."

That's why the furor that Quayle sparked in Europe may prove helpful. It should intensify efforts at higher levels to bring a conclusion to the GATT round, which has languished for more than five years. German Economics Minister Jürgen Möllemann has called for a summit of the leaders of the Group of Seven industrial nations to address GATT issues. That effort would push a deal beyond stodgy GATT bureaucrats.

None of this will come without pain. President Bush expects German Chancellor Helmut Kohl to pressure France to bend on GATT. But French President François Mitterrand's Socialist government is near collapse. Mitterrand is in no position to further anger farmers who enjoy the bloated subsidies Washington wants to end. And German farm incomes slumped 16% last year. Beating up on France could drive a wedge between France and Germany, the two countries in



FRENCH FARMERS ARE ANGRY

charge of unifying Europe.

So, Bush's strategy could backfire. If Kohl can't turn the French around on GATT and Bush hangs tough, U.S. influence on the Continent could take a nosedive. The French have been bent on limiting Washington's role in Europe's affairs for years. They recently tried to enlist German support for a European defense force independent of the U.S. Should that happen, a U.S. slide into isolationism could become unstoppable.

All of this gives heft to Quayle's important warning: Something has to be done about GATT. Now. The way to start is to hold the G-7 meeting soon to defuse the GATT confrontation. Maybe then the U.S. and Europe will start addressing the pivotal questions about the post-cold-war world that so far they have avoided.

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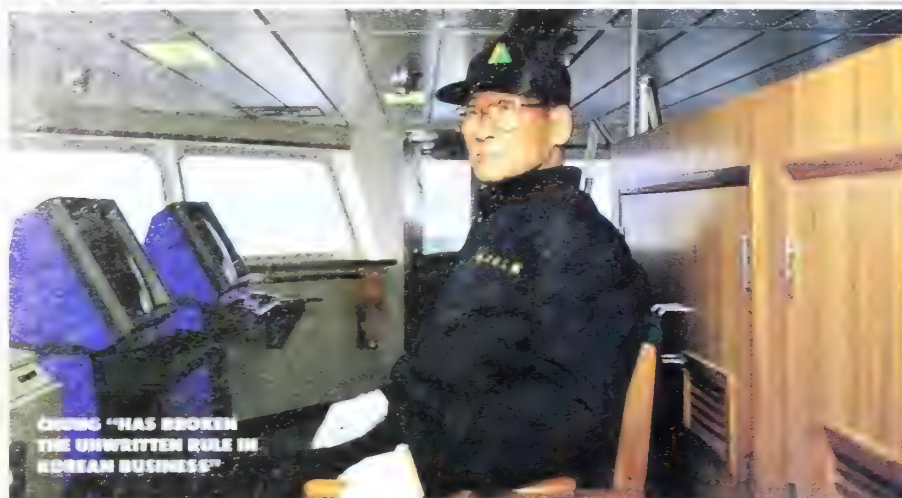
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A CHAEBOL PLAYS HARDBALL WITH ROH TAE WOO

By entering politics, Hyundai's founder may hasten its breakup

In his 78 years, Chung Ju-Yung has ruled with an iron hand and an iron will. And he's not about to stop now. On Jan. 1, the founder of the \$50 billion Hyundai Group, the sprawling empire that makes everything from chips to ships, stepped down from the helm to enter politics. Now, he's launching a direct assault on the government of South Korean President Roh Tae Woo, whom he accuses of ruining the economy.

For Chung, the stakes couldn't be higher. If his new political party is successful, Chung could make big trouble for Roh. But if he fails, it could hasten a breakup of the powerful house of Hyundai (table). Even now, the battle is exacting a heavy toll on the group. To take the steam out of Chung's political campaign, the Roh government is threatening to cut off Hyundai's access to financing and lucrative state contracts, according to industry sources.

'COLLUSION.' A faceoff between the government and Korea's conglomerates, or *chaebols*, is nothing new. For years, Seoul's politicians have been cracking down on the conglomerates. The government has tightened up on credit as a way to force them to streamline and become more globally competitive. Even Hyundai's top brass agree that it's time to break up the various units independent of one another. "The trend is toward lean management and higher productivity," says Chung Ju-Yung's younger son, Chung Mong-koo, Hyundai chairman, told *Forbes*.

But so far, the group is reaching new heights with Hyundai, the unwritten rule in

Korean business by being a political opponent of the government," says an executive of rival Samsung Group.

Chung and the government have been sparring for years. A political maverick with dreams of seeing a unified Korea in his lifetime, Chung irritated the government in 1990 when he became the first South Korean businessman to visit the North. Then, on Oct. 26, the government singled out Hyundai for tax evasion and slapped the company with \$181.5 million in back taxes and penalties. "I'm no tax evader," says Chung, who has paid the taxes, but also appealed.

The latest round of fireworks was set off after Chung launched his Unification People's Party on Feb. 8. It will face off with Roh's ruling Democratic Liberal Party in the National Assembly elections in March. Chung says he wants to put an end to the "collusion" that exists between the *chaebol* and the politicians. To drum the point home, Chung leaked details of millions in payments he made to top Korean politicians, including Roh's government. Roh admitted receiving the money, but said he spent it on the "needy."

To prevent Chung from raising political funds by selling Hyundai stock, Roh's men are turning up the heat. According to Yum Kil-

Chung, a senior analyst with Korea First Securities Co., the government is urging institutional investors not to buy into Hyundai. "If this pressure continues, Hyundai's shares could crash as the company will be forced to sell more to raise funds," Yum says. Rumors are rife that banks are refusing to make loans to Hyundai. Chung Se-Yung denies any such pressure. Analysts also say Hyundai was denied permission by the government to issue bonds.

FAMILY FEUD? The fallout with the government could hurt Hyundai sales. "In Korea, the government is still the biggest contractor, and a strong relationship with the government is imperative to win the contracts," says Kim Mahn Je, former deputy prime minister. Adds Suh Sang-Mok, a ruling party member of the National Assembly: "Hyundai got a lot of goodies from the government in the past. But such a practice is unlikely to continue." The first test will come soon, when the government awards contracts for an \$8 billion high-speed railway and \$1.25 billion for tankers.

Chung's entry into politics has left Hyundai with no clear leader. Chung Se-Yung, 64, now heads the group. Four of Chung's sons are also in management, but Hyundai sources say jockeying for power could create a family feud. Part of the problem is that the elder Chung never built up a stable of professional managers. These days, even Chung Se-Yung hints that a big shakeup is imminent. "I'll be the last chairman of the Hyundai Group," he says.

A lot hinges on the outcome of the election. If the elder Chung's party fails to win at least 20 seats of 237, the minimum needed to function effectively in the National Assembly, Hyundai's fortunes could sink. And if Roh gains a clear majority, the government could wreak havoc on the Chungs' personal fortunes. In the worst-case scenario, Roh could order state-owned banks such as Korea Exchange Bank and Korea Development Bank to call in Hyundai loans. That would prompt lenders to call in their debt, forcing the Chungs either to give up their control or go bust.

Other *chaebol* are watching to see how much power the government can wrest from the Chung family. Whatever the outcome, Korea's corporate titans should brace for even rockier times ahead.

By Lawrence H. Whitehead
Seoul

HYUNDAI'S MAJOR PIECES	
SUBSIDIARY	1991 Sales (billions of dollars)
TRADING	\$12.0
HYUNDAI MOBILES	7.7
ENGINEERING & CONSTRUCTION	4.5
MOTOR SERVICES	3.7
SHIPBUILDING	3.1
MACHINERY	1.3
ELECTRONICS	1.1
IRON & STEEL	1.1
OTHERS*	15.5
TOTAL	\$50.0
*SECURITY, POWER, SHIPPING, AND RECREATION	
SOURCE: HYUNDAI, 1991	

AS LE PEN GROWS MIGHTIER, FRENCH SOCIALISTS ARE STUMBLING

It's taken for granted in France that the Socialists are in for a drubbing in local elections next month. But the drubbing could become a rout, and the fallout could spread far beyond the regional posts at stake. Each day, the government of Prime Minister Edith Cresson seems nearer doom. An electoral disaster could even oust President François Mitterrand long before his term ends in 1995. Predicts the CEO of a top French company: "Mitterrand is finished—he can't hang on."

In the Mar. 22 elections, the most crucial sign of disaffection will be the score of the neofascist National Front of Jean-Marie Le Pen. Until now a splinter group for France's perpetually disenchanted, backed by 10% to 12% of the electorate, the front may win a fat 20% this time, some polls indicate. That could top the Socialists' showing. Le Pen is exploiting growing working-class resentment of Algerian immigrants as well as farmers' worries that Mitterrand will cut agricultural subsidies. A Socialist loss to Le Pen would crack Mitterrand's remaining credibility.

BARE KNUCKLES. The Socialists are scrambling to prevent defeat. The key battle is in the Nice-Marseilles area, where Le Pen is running for the presidency of the regional government. Opposing him is Socialist Bernard Tapie, the handsome owner of the Marseilles soccer club and Germany's Adidas sportswear firm. Although Le Pen is the underdog in the race, he could benefit from 14% unemployment in the region. Countering that, Tapie, 49, has launched bare-knuckled attacks on Le Pen. One example is his campaign kickoff, during which Tapie blasted: "If Le Pen is a bastard, those who vote for him are bastards, too." Such tactics have won Tapie a reputation as a brash, blue-collar hero, although few see him as presidential material.

But even a Tapie victory will leave the Socialists with a pack of troubles. Germany is strongly challenging France's influ-

ence in a united Europe. Unemployment is running at 10% as companies such as Peugeot and steelmaker Usinor Sacilor keep laying off workers—despite government jawboning. Instead of responding to such challenges, the Socialists have been mired in scandals involving campaign funds and the admission of Palestinian terrorist George Habash to a French hospital. Taken together, such affairs have given Mitterrand a dismal approval rating of 24% in public-opinion polls, after 11 years in power.

After the March elections, Mitterrand is expected to dump Cresson, who is taking the blame for high unemployment. The most logical replacement is Jacques Delors, president of the

European Commission. Delors has an aura of leadership that's lacking in Paris. Polls show that he would win France's presidency if elections were held today.

Still, Delors might decide that being Prime Minister in a crumbling administration would hurt his chances of becoming President later. As for Mitterrand, perhaps his best hope is to bow out gracefully. He could hold a referendum he proposed last fall to cut the presidential term from seven to

five years. Citizens would surely vote *oui*, allowing Mitterrand to quit gracefully and opening the door for Delors.

As President, "Mr. Europe" might rebuild France's European credentials, tarnished by Germany's new power. He would probably accept greater EC political union than Mitterrand has. At home, this moderate ex-Finance Minister would maintain a strong franc and cut state control of industry. But above all, says Peugeot Chairman Jacques Calvet, France simply needs a "strong leader" to deal forcefully with tough problems like immigration. A Socialist rout during next month's elections might just provide one.

By Stewart Toy in Paris



SOCIALIST TAPIE: LE PEN VOTERS ARE "BASTARDS"

GLOBAL WRAPUP

JAPAN

President Bush may be talking tougher on trade with Japan, but two men widely rumored to be nominees for senior State Dept. jobs involving relations with Tokyo are anything but trade hawks. Congressional sources say U.S. Ambassador to India William Clark Jr., a career diplomat, will soon become Assistant Secretary of State for East Asia and the Pacific. And Gaston J. Sigur Jr., a George Washington University professor, may succeed Michael H. Armacost as Ambassador to Japan. During the Reagan years, Sigur headed Asia policy at the National Security Council and

State Dept. Although both are Japan specialists, neither is known for taking hard-line stances on trade issues, which are fast becoming an election-year topic.

RUSSIA

A new wave of nationalism is gathering force in Russia, as the pain of Boris Yeltsin's economic reforms intensifies. In the vanguard of the reactionary movement are former Communists, disgruntled Army officers, and the anti-Semitic Pamyat group. While not a united force yet, they have one thing in common: scorn for Yeltsin's attempts to attract aid from the West—from food airlifts to

a \$6 billion ruble-stabilization fund.

Anti-Western speeches were applauded wildly at a large protest meeting on Feb. 9 outside the Kremlin. One speaker claimed that efforts to enroll Russia in the International Monetary Fund would only surrender economic policymaking to Western bureaucrats. Reform economist Stanislav Shatalin warns that the groups are making "well-planned preparations for a counterrevolution against democracy."

Such fears could be one reason why Secretary of State James A. Baker III, now visiting the former Soviet Union, is softening his opposition to a ruble-stabilization fund: It might improve the economy and shore up reformers.



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CAN KINDER-CARE PUT THIS PUZZLE TOGETHER?

It's a head-scratcher: How to restructure and avoid bankruptcy

It was a lot like the kids' game "red light-green light." In 1990, investment banker Tull N. Gearreald Jr. was put in charge of Kinder-Care Learning Centers Inc. while it looked for a permanent boss. Much as he liked the job, he left the day-care chain in mid-year, when it hired someone with more marketing experience. Yet seven months later, the new top man had resigned, and (green light!) Kinder-Care's controlling shareholders called on Gearreald again. As one of the Wall Streeters who arranged the Kinder-Care buyout in 1989, Gearreald felt an obligation to help out the chain. Besides, he says, "I always wanted to run a company."

He's lucky there's a company left to run. Once one of the nation's most promising growth companies, Kinder-Care, based in Montgomery, Ala., ran into trouble in the late 1980s when former Chief Executive Richard J. Grassgreen led it on a disastrous, junk-bond-fueled diversification. Caught in a cash squeeze in January, 1991, Kinder-Care stopped paying interest on its debt, including off-balance sheet obligations now totaling \$550 million—or fully 109% of capitalization. While results from its 1,257 centers have improved since then, Kinder-Care still hasn't been able to generate enough cash to cover its obligations. By most standards, it ought to be going bankrupt.

GROWING ROOM. The main reason creditors haven't forced it into bankruptcy court is self-interest. They stand to take big losses, so they've been patient. "I don't think they've been sitting all day waiting for this," says an older banker. "They're not sitting on their hands."

firm have quietly waged a fierce battle over how to share the restructuring pain. After coming close to an agreement in January, say people familiar with the talks, the deal fell apart. A new resolution, which could yet include bankruptcy, may come any day now.

Negotiators assume Kinder-Care can nurse itself back to health. But first they must figure out how to wipe out about \$150 million in debt, eliminating \$13 million in annual interest costs. With cash flow of about \$60 million, negotia-

tors figure, it ought to cover its debt payments and still have room to grow.

For a man with no line experience Gearreald, 46, gets decent marks as a day care operator. Since moving to Montgomery and enrolling his youngest son in Kinder-Care, Gearreald has focused on sprucing up the chain's aging facilities. He has spent \$35 million in the past two years improving centers—vs. about \$10 million in the two previous years. If bondholders would rather see the money go for interest payments only one has been angry enough to sue and the case is not being actively pursued. "Everybody realizes the way to get their principal paid is by getting the company healthy," says Gearreald.

CUTTING BACK. To that end, Kinder-Care is trying to boost the caliber of employees and cut down on turnover. Last year, the only salaried workers who got raises were center directors. And for the first time, center operators got stock options. Meanwhile, Gearreald is turning a

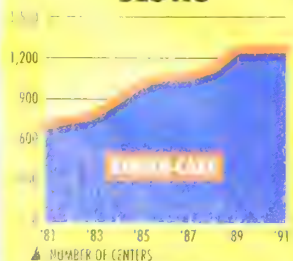
careful eye to the location of centers. Through much of the 1980s, few centers were closed when neighborhoods changed. Now, many older ones are in areas where there is no longer much demand. For future growth, Gearreald is also emphasizing corporate business. Kinder-Care operates on-site centers for companies such as Citibank and Cigna Corp. But Kinder-Care's financial woes have slowed the sales effort.

In truth, all of Gearreald's plans could be knocked for a loop if creditors force Kinder-Care into bankruptcy. Although no one is talking publicly about the debt negotiations, sources say they nearly reached an agreement on Jan. 31 at the New York offices of Kinder-Care's adviser, Smith Barney Harris Upham & Co. Creditors would have taken new common stock and a stronger secured stake in Kinder-Care's real estate in exchange for forgiving \$150 million in debt. But a last minute dispute broke out between bondholders, advised by Donaldson, Lufkin & Jenrett Securities Corp., and the bank group, headed by Citibank. "It was like a game of Twister," says one source. "People couldn't stretch anymore."

Further complicating the negotiations is a matter of image. Lodestar, the New York investment-banking boutique that



HOT GROWTH SLOWS



HALT THAT SLIDE: GEARREALD HAS IMPROVED OPERATING RESULTS AT 1,257 DAY CARE CENTERS

controls 63% of Kinder-Care through a \$300 million buyout fund, is working to keep its stake from being eliminated in a reorganization. In addition to souring relations with investors in the buyout fund, a wipeout could put a crimp in Lodestar's merger-advisory business. Lodestar Chief Executive Ken Miller, who until 1988 headed Merrill Lynch & Co.'s mergers-and-acquisitions department, disputes that notion. Strong relationships with investors mean his advisory business "does not depend on the outcome of any one investment, however significant," he says.

Lodestar never meant to get this deeply involved in the day-care business. It entered the picture in 1989 as the investment bank for Kinder-Care's then-parent, Enstar Group Inc., the holding company for Grassgreen's grab bag of businesses. To raise cash for Enstar, Lodestar cooked up a deal in which Kinder-Care would be spun off and Enstar stockholders could buy rights to acquire shares in the new company for \$4.75 apiece. But when only a third of Enstar shareholders decided to invest, Lodestar got stuck with the rest.

TAILSPIN. Kinder-Care then tried to raise cash by selling and then leasing back a portion of its \$500 million in real estate. But that plan fizzled when the real estate market went into its tailspin. The stock that Lodestar originally paid \$160 million for is now worth less than \$20 million. Still, Lodestar didn't take the biggest hit. That distinction belongs to Enstar's shareholders. Enstar, which included everything from an S&I to a shoe-store chain, has filed for bankruptcy protection, and its shares are worthless. In April, Grassgreen is scheduled to begin a three-month prison term for taking fees from junk-bond king Michael R. Milken that belonged to Kinder-Care.

The mess has been a huge distraction for Kinder-Care, but it doesn't seem to have hurt its core business. "Parents are concerned about what's happening in the schools, not what shape the balance sheet is in," notes Jack L. Brozman, president of rival La Petite Academy Inc. Full-year results for 1991 aren't out yet, but Kinder-Care should show modest gains in fourth-quarter earnings. Although it won't finish in the black, neither will it approach the 1990 loss of \$85.5 million on revenues of \$396 million.

In the last two months, investors betting on a positive outcome have bid up Kinder-Care's stock price 40%, to around \$4. They no doubt see a good turnaround play. But given the volatility of the restructuring talks, it would be a mistake to rule out a last-minute twist. Unlike the gentle yarns spun during story hour, Kinder-Care's tale may yet have a scary ending.

By Chuck Hawkins in Montgomery, Ala.

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'CARL HAS 9 LIVES, BUT HE'S GETTING UP TO 8½'

Icahn claims TWA can keep flying solo. Hardly anyone else agrees

For years, Carl C. Icahn has been betting on the future of Trans World Airlines Inc. But in recent months, the wagers have turned rather ghoulish. Last summer, one of Icahn's closest advisers, TWA General Counsel Mark A. Buckstein, bet Icahn \$1,000 that creditors would force the airline into involuntary bankruptcy by September. Icahn, TWA's owner and CEO, countered

sists that with a 1% yield improvement in business travelers, TWA will post \$50 million in operating income this year.

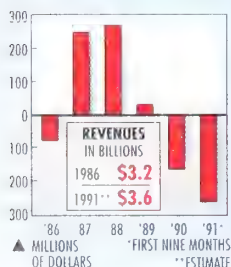
Icahn and his bondholders have to put the best face on things, but they're the only ones with such a rosy outlook. Financial analysts and TWA's rivals say the 66-year-old airline is no longer viable as an independent carrier and that it must seek a merger with another airline if it

nesses he owns and operates are liable.

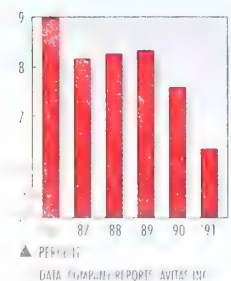
Icahn is having a tough enough time just managing TWA. He has lost two dozen managers since taking over the airline. Some have been replaced, several from outside the industry. But Icahn has become deeply involved in many of the tasks other CEOs would leave to specially skilled managers. He has been delving into the logistics of hub-and-spoke systems and has taken a personal role in reordering certain TWA routes. And he often stays late into the night, dreaming up marketing schemes or fretting over ad copy. In an interview with BUSINESS WEEK at his Mount Kisco (N. Y.) offices, Icahn even trotted out his latest idea: He hopes to enlist 20,000 retirees to sell TWA travel packages in return for free passes. Says Icahn: "It will be sort of like the Avon lady or Tupperware."

It will take more than Tupperware

OPERATING INCOME HAS PLUNGED...



...ALONG WITH TWA'S MARKET SHARE



RESTRUCTURING TWA

DEBT Immediately chopped to \$700 million from \$1.7 billion

ANNUAL INTEREST Reduced to \$61 million from \$211 million

OWNERSHIP Icahn's 90% common stock holding wiped out, but his bond holdings let him emerge with 20% to 40% of new equity, depending on warrants exercised; the rest goes to other bondholders

CASH ON HAND \$500 million; \$100 million more from pending sales

FRESH CASH Icahn to kick in \$35 million more of his own funds

NEW LOANS \$200 million in debtor-in-possession financing to be supplied by Icahn-controlled companies if needed

DATA: COMPANY FILING

ICAHN: CAN HE AVOID LIQUIDATING "THE WORST INVESTMENT I EVER MADE"?

that he could arrive at some kind of agreement with the airline's creditors before it sought Chapter 11 protection. On Aug. 11, TWA filed its so-called "preplanned" bankruptcy, which included agreements with most of its creditors and unions. "He lost \$1,000 to me," says Icahn.

Icahn won the bet, but the airline is another story. The CEO argues that the bankruptcy reorganization will buy TWA the time it needs to turn around (table). He's also offering debt service, a cash infusion from pending asset sales and Icahn's own pocket, and a bold plan to undercut the competition on price may return the airline to profitability this year, he says. Icahn in-

hopes to stave off liquidation. Says Standard & Poor's Inc. analyst Philip Bagga-ley: "Carl has nine lives, but he's getting up to eight and a half at this point."

'WINDOW OF OPPORTUNITY.' Even if Icahn avoids liquidation, he must still deal with TWA's pension liabilities. The Pension Benefit Guaranty Corp. (PBGC), the federal agency that insures private pension plans, says TWA's plan is underfunded by \$930 million. The agency is now negotiating with Icahn about ways to fund the plan, including tapping the assets of other Icahn-controlled companies. "Bankruptcy is a window of opportunity to address the pension issue," says Diane E. Burkley, deputy executive director of the PBGC. "The other busi-

nesses he owns and operates are liable." parties to turn TWA around. The carrier's problems are massive. And even though the recent Chapter 11 filing may buy some time, it could make matters worse. Having seen Eastern and then Pan Am disappear, travel agents are becoming wary about booking customers on an airline that's in bankruptcy. And TWA's reputation for service is terrible. Its planes are the oldest in the industry—the fleet is five years older than the industry average of 11. To finance operations, Icahn has had to sell off \$1.5 billion worth of valuable assets, including the airline's lucrative London routes. And TWA's domestic route system is too small to feed its existing European routes. "I don't see a long term future for TWA," says

cott L. Hamilton, editor of *Commercial Aviation Report* in Dallas. "It's too small to be a significant player."

Travel agents are beginning to fear the same. They would prefer to see TWA remain a competitor, but many are afraid of lawsuits if TWA stops flying. So they are asking clients to sign release forms before they book a ticket. Such precautions will make many think twice. Even worse, some agents who are confidently booking TWA trips now say they are not willing to take bets on the longer term once Icahn gives up a majority stake. "You never know what TWA is going to do," says Richard Copland, owner of Hillside Travel in New York.

FARE CUTS. Icahn is hoping to allay such fears with lower prices. In January, TWA began offering frequent flyers 15% cash rebates on certain fares. And since October, it has been offering deep discounts on business travel fares. That strategy may fill some seats over the next few months, but Icahn has little else to offer in the way of long-term growth. He's beefing up TWA's hub at New York's John F. Kennedy Airport by adding flights from six cities beginning in March, but he plans to fight that battle on price as well. The Boston-to-New York hop will be \$39 one way, compared with Trump Shuttle Inc.'s \$142.

The best outcome Icahn can hope for is an alliance that could lead to a merger or joint venture. He has talked with several potential industry partners, but nothing has materialized. Last December, he said he had "talked" with Continental Airlines Inc. CEO Robert L. Fierusson. But industry experts note that as a bankrupt carrier, Continental is required to respond to any overtures. Icahn says he is also discussing "code sharing" with British Airways PLC. Such a marketing arrangement could "feed" TWA's domestic passengers at JFK into British Airways flights to London and vice versa. But that alone wouldn't change TWA's fortunes. "Icahn needs someone who will make a financial commitment," says Washington (D.C.) aviation attorney Morris R. Garfinkle.

Icahn isn't placing any bets—at least not publicly—on when and if that will happen. Although he calls TWA the worst investment he ever made, the Princeton philosophy major is trying to become what he calls "an airline philosopher." He's dissecting TWA's operations so he can be better prepared to meet the challenges ahead. Icahn says it's like swimming in the ocean: "Once you get beyond those waves, it's easier." That may be true of swimming, but when it comes to running an airline, Icahn may already be in too deep.

By Lisa Driscoll in Mount Kisco, N.Y.,
with Susan B. Garland in Washington,
and Andrea Rothman in New York

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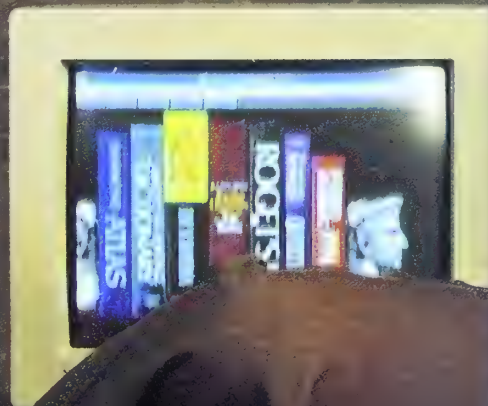
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MICROSOFT

BILL GATES'S BABY IS ON TOP OF THE WORLD. CAN IT STAY THERE?

Five thousand Microsoft Corp. employees gather in Seattle's cavernous Kingdome. As the houselights dim, a spotlight follows a red Corvette with the word "Windows" written across its door. Microsoft Executive Vice-President Steven A. Ballmer steps out from behind

the wheel, pumps his fist into the air, and leads the crowd in a chant: "Windows, Windows, Windows, Windows." Next, the spotlight jumps to an Edsel making its way into the arena. It's emblazoned with "OS/2," the name of IBM's competing software. Then, as the song *Leader*



of the Pack blares from the loudspeakers, 10 leather-clad bikers roar in on Harleys. The lead biker: lanky, owl-eyed William H. Gates III. The crowd roars, as it would for a rock star.

Leader of the pack, indeed. This employee meeting-cum-pep rally is pure Gates: part adolescent mischief, part marketing genius, lots of energy, vision,

and above all, drive. After his rollicking entrance, the 36-year-old chairman took the dais that October afternoon to sketch out his view of the computer market and Microsoft for 1992 and beyond. In the span of four hours, he raced through market analyses, product demos, and predictions—all in a nasal drone peppered with his trademark



Cover Story

With this crowd, the effect is electrifying. Microsoft is, in a word, "Bill," says Jeff Raikes, an 11-year veteran and now a senior vice-president. Like its founder, the company is "high horsepower, high energy," he says.

That combination of energy, intellect, and nerve has made Gates the richest man in America and has kept the Redmond (Wash.) software maker on a gravity-defying trajectory. Despite recession and a slowdown in personal-computer sales, Microsoft revenues shot up 56% to \$1.8 billion, in 1991, thanks largely to the stupendous acceptance of Windows, a program that gives IBM PCs a graphical "look and feel" similar to that of Apple

Novell Inc. And later this year, it's expected to bring out Cirrus, its long-overdue entry into data-base software, a market dominated by Borland International Inc.

The question now is whether the unique Gates-inspired style that put Microsoft on top can keep it there. Simply managing its current growth would be challenge enough. Microsoft's payroll, which had jumped from 4,000 in 1989 to 8,200 by the end of fiscal 1991 last June, has now passed 10,000 and is growing by 70 fresh recruits each week. Just to house the 4,000 headquarters employees, the company's suburban Seattle campus has spread to 22 low-rise buildings. Employees now drive, rather than walk, across the 260-acre site.

of OS/2, which is getting good reviews from corporate testers? "We're golden," he says, "because OS/2 is a really humorous way to run Windows applications." What of the FTC probe, inspired by rivals who claim Microsoft used unfair practices to dominate the Windows market? "The worst that could come of this is I could fall down on the steps of the FTC [building], hit my head, and kill myself," says Gates sarcastically.

'THROW THEM IN.' Gates has more than bluster going for him. In the 17 years since he launched Microsoft, he has followed a simple rule: "I hire smart people that are pretty high bandwidth, and I challenge them to think. I ask them to be pretty committed and to work pretty hard."

New recruits usually accept a salary cut and 60- to 80-hour workweeks. And there's minimal training. Says Pete Higgins, a vice-president: "The training we do is on-the-job. Throw them in, and good luck." In return, recruits aren't saddled with a lot of rules and bureaucracy. Those who can't hack it are asked to find another job within the company or they're gone within two years.

That's true no matter how high the rank. Michael R. Hallman found that out. In March, 1990, Hallman, a high-level Boeing Co. computer executive, became Microsoft's president after a four-month search. But on Feb. 3, Gates fired Hallman and split his job among three longtime Microsoft executives: Ballmer, Michael J. Maples, and Francis J. Gattette. Gates's explanation: "I didn't see him [Hallman] as a match for what the job had grown to. I expect a lot of new thinking." Insiders say it's typical Gates. "Hallman just didn't have enough bandwidth," says one executive.

But those who fit the bill are rewarded handsomely. Thomas Dimitri, a novice programmer who turned down a higher-paying job to join Microsoft last year, has already made a paper profit of \$150,000 on options he can exercise in 1995. He is also eligible for a performance bonus of up to 15% of his salary every six months. Microsoft's stock has made more than 100 employees millionaires, some of whom take the money and run. After 10 years, Scott Oki, a top marketing executive, retired at age 40 on Jan. 27, with \$40 million in stock.

But a surprising number stay. At less than 6%, Microsoft's turnover is low by industry standards. Like their boss, the ideal Microsoft employees value winning more than the rewards. To find the right people, recruiters blanket universities. Personnel scours 10,000 resumes a month, looking for raw talent rather than lengthy work experience. And forget about dressing for success. The ton

MICROSOFT AS MONEY MACHINE



Macintosh. In 20 months, 9 million copies have been sold, creating a \$1 billion business in Windows and related programs. For fiscal 1992, ending this June, analysts expect Microsoft earnings to hit \$700 million, on \$2.7 billion in revenues. That has thrust its stock as high as 130 percent weeks, giving it a market value more than that of General Motors

POINTED GUNS. Clearly, Bill Gates and Microsoft are, at least in business terms, top of the world. But the billionaire, 31 times over, who still works 15-hour days, zigzags the country in coach cars and obsesses about details that other chief executives would ignore, isn't sleeping up. Sure, Microsoft has Windows, the king of the market for personal-computer operating systems, the basic software that runs 80 million PCs. But there are 100 worlds to conquer. For now, the company is still trying to get its foot in the crucial market for database software, now dominated by

IBM. There are external challenges as well (table, page 64). A half dozen companies—ranging from IBM and Apple to Sun Microsystems and Next—are trying to reduce Microsoft's dominance in PC operating systems, the basis of the company's market power. Software makers everywhere are angling for a chunk of the Windows market, which Microsoft has had mostly to itself. And then there are legal issues: Apple Computer Inc.'s four-year-old copyright suit and an ongoing Federal Trade Commission investigation. An economist hired by Apple says Windows has caused Apple damages exceeding \$4 billion, but Apple won't say how much it will actually seek. "This time, all guns are pointing at Microsoft," says analyst David Readerman of Shearson Lehman Brothers Inc.

In typical fashion, Gates scoffs at the challenges. "I want to meet the guy who doesn't think we're gaining market share every day," he says. "That guy's not awake." What of IBM's new version



EARNING MICROSPEAK BANDWIDTH Measure of a person's intellectual powers **FLAME MAIL** Electronic mail that is caustic
emotional GRANULARITY Fineness of detail **HARDCORE** Serious about work **NONLINEAR** Out of control, angry **RANDOM** Illogical

set by the rumpled chairman. "We shy away from hiring people who wear expensive jewelry and fancy suits," says John Neilson, head of Microsoft's New York sales office. An applicant is more likely to be asked a brain-twister that reveals how he thinks (page 65) than to recite his knowledge of, say, object-oriented programming.

THE INQUISITION. Microsoft is clearly not for everybody. Veterans of large corporations often experience culture shock. During his first week on the job, Richard I. Segal, a marketing manager, encountered a group of programmers in bathingsuits discussing software bugs over a game of volleyball in the hallway. "After eight years at Aetna Life & Casualty, I had never seen anything like that. Microsoft's biggest growth issue is getting people who have worked in a cubicle all their lives to function in this environment," he says.

It's also not a place for those who are skin-skinned or easily intimidated. Employees speak knowingly of "Bill meetings," which sound only slightly better than the Spanish Inquisition. Gates peppers his workers with technical questions. He challenges, he makes judgments, he finds flaws—whether it's a

faulty algorithm or a poorly targeted marketing plan. Employees have been known to crib for weeks, even holding practice meetings, for one 60-minute session with Gates. "These meetings work," says software developer Neil Konzon. "He focuses in on the negative. He beats the living hell out of you. At the end he says: 'Hey, you're doing good.'"

"I'm the biggest single influence in the corporate culture here," Gates acknowledges. Yet he doesn't expect everybody to match his workaholic pace. His Lexus, littered with fast-food wrappers, rolls into the parking lot at 9 a.m. and is usually there until midnight. When he gets home, Gates writes memos for another two hours on his home computer.

Bachelor Gates is not interested in mundane details such as haircuts and fashion. His wardrobe is strictly off-the-rack, usually easily matched shades of beige. That frees Gates, a Harvard University dropout, to dive headlong into intellectual pursuits. To prepare himself for the Apple suit, he became an expert on intellectual-property law. When he became interested in Napoleon, he didn't read one biography but 12. And he devoured the lengthy *Making of the Atomic Bomb*. The common theme?

People and developments that have had "a dramatic impact," says Gates.

He shuns vacations. But when he finally acquiesces, he turns them into "think weeks." Sequestered in the woods with cans of tomato soup and SpaghettiOs, he reads stacks of books and magazines and ponders Microsoft's future. The company almost always seems to come first. Even his \$10 million, 46,000-square-foot dream house—now under construction—has Microsoft written all over it. Oh, sure, it will have racquetball courts and its own salmon run, but it also will be loaded with high-tech gadgetry so Gates can test his theories. Rooms will be lined with high-definition screens to view constantly changing digitized art works, electronic books, and architectural designs.

SMALL GROUPS. Wherever he is, Gates keeps up with his empire via electronic mail. Available to all employees, the system is "the lifeblood of the company," says one executive. All Microsoftians are encouraged to log on and share ideas and information—even to send ideas to Gates without going through their supervisors. One recent Monday morning, Neilson of the New York office found a personal message from Gates flashing

on his PC screen. The boss wanted some facts on the Wall Street market. "You can get mail from Bill G. at any time," says Neilson. "If you're intimidated by that, Microsoft is not for you."

Keeping that sense of connectedness gets more difficult as Microsoft swells. But the company, by far the world's largest independent software maker, is determined to avoid typical big-company pitfalls. Says Maples: "We spend a lot of energy thinking about how to keep the place feeling small." One way is by sticking to small groups, a lesson Gates admits was lifted from Hewlett-Packard Co. Whether in programming or in marketing, no group is larger than 200. And each has subgroups so that tasks remain manageable, each person feels he or she can make a difference, and everyone is accountable.

This tack is critical, Gates believes, in creating high-quality software. The group designing the forthcoming NT, or New Technology, operating system has only 100 programmers—not many considering that the finished product will require 2 million lines of computer code.

DISTRUST. Much is riding on their work. Due out at the end of 1992, NT is one of several operating systems, including OS/2 and various forms of American Telephone & Telegraph Co.'s Unix, that are vying to replace Microsoft's MS-DOS in a new generation of PCs. These machines, linked

by the hundreds in networks, are expected to pervade computing by the end of the decade. "If Microsoft can pull off NT, it will totally dominate," predicts Joe Freitas, director of investment-banking systems for Merrill Lynch & Co., which is testing a preliminary version.

Given such high stakes, it's no wonder Gates inspires fear and envy among competitors and, sometimes, distrust among customers. Much of the reaction stems from the company's flip-flop on OS/2, which it helped create with IBM. Software developers—a dozen of whom have been questioned by the FTC—say Microsoft misled the industry by publicizing OS/2 while it was more quietly plotting a strategy for Windows, a competing network for giving PCs Mac-compatibility. Thus, they say, Microsoft gave itself a huge headstart in writ-

ing applications programs such as spreadsheets for Windows. The result: Microsoft sells 55% of all Windows applications packages. Microsoft executives deny that they misled anybody or had an unfair advantage. "There is always this implication that if you're successful, it's because you cheat," complains Maples.

Whether the criticism is justified or not, Microsoft's dominance has made it the bête noire for almost everybody else in the software industry. The ever-hyperbolic Philippe Kahn, Borland's president, compares Microsoft's power to that of Nazi Germany. "He seems like he has everything. But guys with a lot of guts and courage, they checked Germany," he says. Both Borland and Lotus Development Corp. are taking aim at Mi-

Microsoft's huge share of the Windows applications market will be reduced by competition. That's only natural. What Microsoft executives worry about most is what they consider unnatural (or, in Microspeak, "totally random") possibilities. At the top of that list is action by the FTC or a major loss in the Apple copyright-infringement suit. All evidence is due by Feb. 29, and both sides are preparing for a summer trial. Apple alleges that Windows infringes its Macintosh copyrights, specifically one covering the display of overlapping on-screen windows. Apple is favored to win and collect damages that independent analysts say could hit several hundred million dollars. "I'll move to Canada if the judge decides something like that,"

says Ballmer. "I think it's so crazy I don't want to talk about it."

But, Ballmer and Gates insist, they're not even mildly distracted by such dire possibilities. Their focus is on the long-range plan. After all, when they showed the first, primitive version of Windows in 1985, the doubter told them to forget it—they'd never come close to Macintosh. But Microsoft's programmer persisted, and Gates plowed \$100 million into Windows. Now, he's sitting on a billion-dollar business. So, he's making a similar commitment—\$40 million since 1986—in the emerging technology of multimedia computing.

And Gates says he

has just begun to develop the Windows market. Lately, he has been promoting a concept called "information at your fingertips." The idea is to spread Windows software all the way from handheld PCs to mainframes—to make finding and using computerized information far easier than it is now.

Competitors see it as another sinister plot. "Microsoft is intent on taking over the world," says Pete Peterson, executive vice-president of WordPerfect. That's a bit extreme, but it's easy to see how rivals might be confused. Certainly Bill Gates, with the dominant company in software and a \$7 billion fortune, is on top of the world—even if he doesn't actually own it.

By Kathy Rebello in Redmond, Wash.
with Evan L. Schwartz in New York and
bureau reports

WHERE MIGHTY MICROSOFT IS VULNERABLE

OPERATING SYSTEMS

MS-DOS is still used on 90% of IBM PC-compatibles. But DR DOS is doing better since Digital Research was bought by Novell. IBM's OS/2, aimed at high-end applications, is expected to get to market many months before Microsoft's own top-end New Technology package

WORD PROCESSING

Microsoft's Word for Windows had the market virtually to itself. But in just three months, Wordperfect's Windows package has grabbed 24% share

LEGAL PROBLEMS

Apple's suit, alleging that Windows violates its Macintosh software copyrights, is likely to go to trial this summer. The betting is that Microsoft will lose and pay damages. Meanwhile, the Federal Trade Commission is continuing its probe of Microsoft's competitive practices

NETWORKING

Novell remains king of the hill in networking software. Microsoft's next move: Building networking into its forthcoming New Technology operating system

SPREADSHEETS

Microsoft's Excel has been gaining steadily on market leader Lotus. But Lotus now has started shipping a bug-free 1-2-3 for Windows, and Borland will have a Windows spreadsheet soon

DATA BASES

Microsoft has yet to field a product for desktop PCs. With the acquisition of Ashton-Tate, Borland dominates this key market. Analysts figure Microsoft's Cirrus, expected this summer, may be a money loser for years due to its high development costs

DATA: INTERNATIONAL DATA CORP., BW

crosoft Excel, until recently the only spreadsheet for Windows. And WordPerfect Corp., the leader in word-processing software, is taking on Microsoft's Word for Windows.

Microsoft is redoubling its marketing defenses. It's spending \$8 million on TV ads for Windows—the company's first video campaign. That's in addition to a blizzard of print advertisements, pamphlets, and sales seminars. Now, Microsoft plans a blitz of shopping malls, with computers running its programs next to those of the competition—a high-tech Pepsi Challenge.

The marketing is intense because the market is huge: There are 9 million PCs running Windows, and there will be an estimated 9 million more by yearend. To take advantage of Windows, they need new applications programs.

HOW MICROSOFT MAKES OFFERS PEOPLE CAN'T REFUSE

Joe and Cathy Jo Linn were weighing job offers from Microsoft Corp. The jobs looked fine, but it meant moving across the country, uprooting the kids, and leaving an easy lifestyle. They hemmed and hawed and gave the recruiters excuses: They talked at Microsoft's notorious 80-hour weeks. They refused to commute more than a mile from their home. They wanted a big house in their price range. They were in the midst of karate lessons in Virginia. How could they possibly leave?

Easy, said Microsoft recruiter Carrie Tibbetts. She told them they could work flexible hours. She located a suitable house within half a mile of the office and faxed them a picture. She even

found them a karate instructor. The Linns now work at Microsoft.

Why all the bother? Explains Tibbetts: "They're very smart." Finding and hiring the best is top priority in Redmond, Wash. It drives the No. 1 maker of personal computer software to visit 137 campuses, some of them four times each year. It prompted the review of more than 120,000 résumés last year and face-to-face interviews with 7,400 candidates—to hire 2,000 people. It makes Microsoft pull out the stops for folks like the Linns, two PhDs who were working at a military think tank outside Washington, D.C. Explains Jeff Raikes, a senior vice-president: "You can't hire bad programmers and get great software."

HARD SELL. Even Chairman William H. Gates III gets in on the act. Ask him what the most important thing he did last year was and he answers: "I hired a lot of smart people." Then he actually names them. Near the top of his list is James Allchin, the former chief technical officer at Banyan Systems Inc. His knowledge of networking software is critical in his new post as vice-president for advanced systems. "It took a year to recruit him," says Gates with the pride of the happy hunter.

Allchin, 40, knew he was Gates' quarry. He kept deflecting Microsoft's offer, but Gates kept coming back—visiting, calling, flying him in for dinner. Gates finally won him—at a 35% pay cut. "He convinced me of one thing," Allchin says. "If you want to



THE LINNS: MICROSOFT EVEN FOUND THEM A KARATE INSTRUCTOR

change the world—and being the silly kind of guy I am, I do—I would have a bigger impact at Microsoft."

The company relies on hundreds of "hard-core" technologists such as Allchin. Microsoft programmers must endure the grueling process of writing lines and lines of computer code. On average, a good programmer produces only 10 lines of bug-free code a day—

for a program that may eventually contain upwards of 500,000 lines.

Besides tenacity, the best programmers must have creative problem-solving skills. To spot these talents, Executive Vice-President Steven A. Ballmer came up with a technique that has become legend: seemingly off-the-wall, brain-teaser questions (chart). John Neilson, regional general manager of Microsoft's New York office, recalls his first sampling. He and Ballmer were jogging in Central Park four years ago when Ballmer turned and said: "How many gas stations do you think there are in the United States?" Neilson spent 20 minutes puzzling it out. Now he uses the question on job candidates. Explains

Ballmer: "They don't have to get the right answer. But I want to see how they go through the process. If they're good, I make the game harder."

Ballmer-like questions are just one way of weeding out applicants. Young recruits may be looked over several times on campus before they are flown to Redmond headquarters. There, they spend a day being interviewed by at least four staffers from different parts of the organization. The process is so thorough that an interviewer may pass on details and comments about the candidate to the next interviewer—via electronic mail—before the next session begins.

The system has earned Microsoft a reputation for bagging much of the country's best young technical, marketing, and management talent. "It's a machine, the way Microsoft is set up in the universities," says Brad Silverberg, a Microsoft vice-president.

That approach keeps Redmond flooded with candidates. Someday, these eager youths may see a windfall from Microsoft's stock-option plan, but most accept less than the going rate of pay to sign on. Thomas Dimitri, a 22-year-old Microsoft recruit from the University of Arizona, had offers with bigger salaries from IBM and Compaq Computer Corp. "The Microsoft name carries a lot of mystique," he says. "Just having that on your résumé looks great."

By Kathy Rebello in Redmond, Wash., with Evan I. Schwartz in New York

CAN YOU PASS THE TEST?

Here's a list of quirky questions that are commonly asked in interviews with prospective Microsoft employees. Recruiters aren't looking for a definitive answer, but are testing how an applicant thinks

- 1 Why are manhole covers round?
- 2 How many gas stations are there in the U.S.?
- 3 If you were to put artificial turf on all the Major League ballfields, how many square yards would you need?
- 4 Why do many vending machines and jukeboxes have both letters and numbers?
- 5 If you were a product, how would you position yourself?

A-1 They can be moved by rolling, and if they were square, they could fall down the hole. 2 If you figure there are 250 million people and one car per four people and maybe 500 cars for each gas station, the answer is 125,000. 3 Some type of process as #2. 4 There would be too many buttons otherwise. 5 As high-energy, high-bandwidth, and hardcore

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GAIDAR'S DRASTIC REFORMS

PRICES Freed most wholesale and retail prices on Jan. 2. The annual inflation rate soared to 300%

SPENDING Cut most industrial subsidies, slashed weapons orders by 85%, and pledged to shrink budget deficit from 15% to 1% of GNP

TAXES Slapped a tax of 15% on food and 28% on other goods, while imposing an even heavier levy on corporate profits and many commercial transactions

MONEY Floated ruble against dollar on Jan. 2, allowing its market value to plunge below 1¢. Asked West for \$6 billion stabilization fund to make ruble convertible by July

INDUSTRY Predicts 20% plunge in industrial production in 1992; plans to sell off 25% of state-owned enterprises and property by yearend

DATA: BLS



ECONOMISTS

YELTSIN'S ECONOMIC SHOCK TROOPER

Yegor Gaidar is doing what Gorbachev couldn't. But can he last?

The words rang like shots: "Pozor! Pozor!" (Shame! Shame!) Tens of thousands of workers, pensioners, and hardline Communists marching near the Kremlin on Feb. 9 screamed their opposition to Russian President Boris N. Yeltsin's radical economic program, demanding his resignation and that of Economics Minister Yegor Gaidar. Not a mile away, at the Russian Parliament, just as many demonstrators waved placards begging the pair for speedier reforms. "Yeltsin and Gaidar—don't retreat," one said. "Take more radical steps now."

The Russian Republic has become a country divided, and a radical, 35-year-old economist named Yegor Timurovich Gaidar is straddling the breach. As architect of Yeltsin's economic shock therapy, Gaidar is probably the most controversial figure in Russia right now, next to Yeltsin himself. Millions of Russians became impoverished overnight when he freed prices on most goods on Jan. 2. And the pain has prompted even Yeltsin's own vice-president, Alexander Rutskoi, to call the program "eco-

nomic genocide," while insulting Gaidar's team as "boys in pink shorts."

Gaidar is anything but a sissy, though. In a matter of weeks he has forced through the type of wrenching economic program that former Soviet President Mikhail Gorbachev's economic advisers could only talk about. The goal of his high-risk austerity program is to stabilize Russia's collapsed economy and integrate it with the rest of the world's. "I hope to create the preconditions for stable economic growth in Russia," he explains in fluent English. Such talk is earning high marks in the West. "He is the best macroeconomist you can find in the former Soviet Union," says Swedish economist Anders Aslund.

NO COUNTERWEIGHT. But at home, Gaidar's harsh, unyielding style only fuels his growing unpopularity. Many observers predict he won't last long; Yeltsin may be forced to buy time by dumping him. Moreover, some Western economists question whether Gaidar is moving too fast on prices without providing the counterbalance of privatization. As it stands, most en-

terprises are still in the hands of the state, quashing the kind of free-market competition that might ease the price hikes.

Gaidar insists that Yeltsin fully backs him and that he has no intention of resigning. He plans to stick to traditional macroeconomic discipline—relying on his instinct for applying it amid Russia's wildly shifting political currents (table). His only major compromise so far came in early February, when he rolled back part of a controversial 28% value-added tax on all goods. Now, food will be taxed at only 15%, tripling the first-quarter budget deficit.

Gaidar, a graduate of Moscow State University, honed his free-market approach as a protégé of Stanislav Shatalin, one of the first renegade economists to research ways to reform the Soviet economy under Brezhnev. "Before *perestroika*, we were regarded as terrible extremists and we were under strong suspicion," he recalls. When Gorbachev's reforms loosened press strictures, Gaidar became chief economics correspondent for the journal *Kommunist*. In late 1990, after a brief stint at *Pravda*, he set up his own Institute of Economic Policy.

It was there that Gaidar found a niche: Anticipating some sort of Soviet breakup, he worked out a program of economic reform exclusive to the Russian Republic. Better-known economists serving Gorbachev, such as Grigory Yavlinsky and Nikolai Petrakov, were caught in endless debates on how to reform the Soviet Union as a whole. So when the August, 1991, coup transformed the Soviet political situation,

QUESTION:

WHICH AREA OF MEDICINE DO YOU PREDICT WILL ACHIEVE THE MOST PROGRESS AGAINST MAJOR DISEASES?

- ☐ **Diagnostic Devices**
(e.g., x-ray, CAT scan, blood tests)
- ☐ **Lifestyle Modifications**
(e.g., diet, exercise, stopping smoking)
- ☐ **Pharmaceuticals**
(e.g., prescription drugs, vaccines, biotech products)
- ☐ **Surgery/Procedures**
(e.g., bypass surgery, cancer surgery, radiation)

Each method of medical intervention is important, but recent studies show that pharmaceutical research and development alone has provided about half of all medical progress. These studies also predict that in many major diseases, such as: AIDS, Alzheimer's disease, leukemia, schizophrenia, infectious disease, and arthritis, drug therapy will provide more than 80% of future progress.

America's pharmaceutical research and development is the best in the world. It is a source of great pride to most Americans, and reduces human suffering throughout the world. It also creates the flow of new products to the marketplace that gives this important U.S. industry a favorable trade balance. This is no small feat in a time when very few major U.S. industries are supplying that.

The principal source of pharmaceutical research and development is industry. In the 10-year period, 1981 through 1990, 92% of new "chemical entries" (NCEs) approved by the U.S. Food and Drug Administration were from industry. Of the 100 most-prescribed patented drugs in the United States, 92 were patented by private industry. R&D spending by U.S.-based pharmaceutical companies exceeds any other industry as a percent of sales.

These facts hardly suggest that government

and university-based research play insignificant roles in pharmaceutical research and development. The basic science contributed by these components of the American biomedical research system often provide the necessary underpinnings of drug discovery and development. The unique interplay of these three sectors of our research community is largely responsible for the highly successful track record of American medical science.

But these three vital sources of pharmaceutical progress — industry, government and academia — need continued public and legislative support if the remarkable progress of the past is to continue, and if the promising predictions for future progress are to be realized. This means ample annual funding for the NIH and university-based research is needed. For industry, the ability to operate in a free-market system and adequate patent-term protection are critical factors.

As dramatized by the lost leadership of the American manufacturing and electronics industries, there is no such thing as "assured progress." Without continued support, American leadership in drug research and development could be lost before the end of the 20th century. Now is the time to recognize value, and maintain our lead.



Sheldon G. Gilgore

Sheldon G. Gilgore, M.D.
Chairman, PMA Foundation
Chairman & CEO, Searle

FORGET THE GREEN STAMPS— GIVE ME A TICKET TO MIAMI

The Air Miles program lets shoppers rack up free mileage

Remember those trading stamps that stores across the country used to hand out to win shoppers' loyalty? The simple lure of exchanging them for a toaster made S&H Green Stamps and hundreds of similar programs fixtures of consumer marketing in the 1950s and 1960s.

Some Midwestern consumers can still get Gold Bond stamps, but by and large, this ploy has gone the way of *The Milton Berle Show*. Soon, though, the essence of the trading-stamp idea—an incentive that is not a price cut—will get a very visible boost. In March, Boston-based Loyalty Management Group will use a \$50 million promotional and advertising campaign in the U.S. and Canada to launch Air Miles, a program that uses the promise of free travel to win shopper dollars for specific marketers. Marketing types expect big things of it. "This will have a huge impact in the '90s," says Richard G. Barlow, president of consultant Frequency Marketing Inc., which specializes in frequent-shopper programs.

Air Miles lines up one sponsor each in a range of businesses, from credit cards to

that target the heaviest spenders from Air Miles records.

Airlines have been using frequent-flyer plans since 1980, of course. But many consumers feel left out. Sara Linnie Slocum, a lighting designer in San Francisco, has belonged to four such programs over 10 years—and has never racked up enough miles for a free ticket. "I have become extremely cynical" about the programs, says Slocum.



FREQUENT-BUYER MILES

- 1** Air Miles signs up one sponsor each in such categories as gas-station chains, bank credit cards, and department stores
- 2** Consumers enroll and rack up Air Miles for free trips by buying from sponsors
- 3** Air Miles collects a percentage fee on the business it generates for sponsors
- 4** Air Miles buys discounted blocks of seats from airlines, and awards them to members in exchange for their Air Miles

DATA: COMPANY REPORTS

gas-station chains, and retailers in separate territories. By patronizing these stores, consumers enrolled in Air Miles rack up "miles" that are good on United Airlines, American Airlines, USAir, and Air Canada. Air Miles buys seats from the carriers at a discount and rates it books members on their flights. Air Miles gets a small percentage of every piece of business an Air Miles member gives a sponsor. It also handles direct mail campaigns

Keith Mills, Air Miles' founder, hopes his program will banish such cynicism by bringing free tickets within the grasp of people who don't travel on business. He says customers can rack up miles by, say, using a sponsor's credit card to pay for lodging at a sponsoring hotel, then phoning home on a sponsor's long-distance service. He says a typical customer could collect enough miles in a year to win a free trip from New York to Florida. Charged with the task of enrolling consumers is Marketing Vice-President Michael A. Miles Jr., who may have marketing in his blood (box).

According to industry sources, Air Miles already has such sponsors as AT&T, Citicorp, Sears of Canada, and Time Warner, though none of those companies will comment. "By 1995," says Miles, "we'll have 2 million to 5 million consumers a year taking trips." The prospect of new customers pleases the airlines. "What's nice is, we can fill seats with a mechanism that isn't hurting pricing," says L. Anthony Bacci, a managing director at American. And since Air Miles doesn't target business travelers, it's unlikely to compete with the airlines' own frequent-flyer programs.

Those empty seats inspired the British-born Mills to dream up his plan. In 1988, the 41-year-old former adman persuaded British Airways PLC to back his idea—and fly 100 marketers to a castle in the Bordeaux region of France for a feast and sales pitch. Since then, the British Air Miles program has reached some \$40 million in revenues and picked up such sponsors as Shell, IBM, and Toshiba. One sponsor, National Westminster Bank PLC, figures Air Miles helped it win a higher share of British Visa and Access credit card transactions.

BIG PAYOFF. The U.S. market is certainly ripe for such a program. Retailers and other marketers know they have to promote their products harder than ever. But most promotions involve price cuts, which tend to erode a brand's image and encourage shoppers to switch stores and brands in quest of the best deal. And

TALK ABOUT BORN TO MARKET

As Air Miles' marketing chief, 30-year-old Michael A. Miles Jr. is in charge of recruiting shoppers to the frequent-buyer program. Educated at Yale University and Harvard business school, he spent six years at consultant Bain & Co., where he worked for such clients as Sears & Roebuck—before signing on with Air Miles. His father, who has always worked for his companies, didn't think much of the "He viewed my job at a startup with trepidation," says Miles Jr.

So what does dad know? Well, he knows Michael A. Miles, chairman and CEO of Morris Cos. and before that a top executive at Leo Burnett, Heublein, and Kraft Foods. Miles Jr. clearly learned a thing or two about savvy marketing at his father's knee. He has already signed an innovative deal for Air Miles' \$30 million ad campaign, agreeing to put all of his network on NBC. In exchange, the network is giving Air Miles unusual flexibility to change the timing and content of Air Miles ads based on response to previous spots.

With the growth of overall consumer spending slow, keeping a customer is more important than ever. A study by consultants Bain & Co. concludes that a company that improves customer retention by 2% can boost profits as much as if it had cut costs 10%. Dozens of marketers, from Waldenbooks Inc. to Volkswagen, are trying variations on buyer-loyalty clubs to secure such loyalty.

So Air Miles has a promising formula. But will it be a winner? A lot depends on

whether consumers find the program, which has to track mileage points from a variety of sources, easy to use. Remembering which store or brand is a sponsor could become a bother—and eventually a deterrent, says Joel C. Huber, associate professor of marketing at Duke University and a student of promotional plans. “Gradually, people come to realize that the real cost is and stop,” he says. And defection among sponsors could confuse customers. Burton Group PLC, a British apparel retailer, dropped Air Miles in 1990 after concluding it wasn’t a strong enough selling tool, especially in recession.

And it’s not as though other programs aren’t out there. You can spend money using Citibank’s Visa card to rack up miles on American Airlines. Or you can use American Express to earn miles on several carriers in the Membership Miles program. U.S. Sprint Communications and Holiday Inns Inc. have mileage reward programs, too.



LES JR.: DAD HAD HIS DOUBTS

Mills figures that with a stable of up to 20 heavy-duty sponsors to start, his program will have a scope unmatched by any other loyalty plan. As for customer snuff, he’s setting up an administrative center in Florida to make the program as painless as possible. It’s an impressive plan. The challenge is to make this clever version of trading stamps take wing.

By Gary McWilliams in Boston, with Mark Maremont in London

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Developments to Watch

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THE UNTAPPED POWERS OF THE INDIANA BANANA



Purdue University's Jerry L. McLaughlin has always had good reason to suspect that the paw-paw tree, sometimes known as the Indiana banana, is a potential pharmacy. Eating the shrub's bananalike fruit when he was a kid made him sick. Years later, as a chemist, he reasoned that the plant contained potent chemicals that just might be

medicinal. So when McLaughlin devised two simple tests to screen plants for biological activity—seeing if they kill ocean shrimp or plant cancer cells—he included the paw-paw.

Sure enough, he found that a substance in paw-paw twigs is a powerful pesticide against many insects. That explains why insects hardly ever dine on the tree. He also discovered another substance in the tree that kills cancerous leukemia cells in mice. It is 300 times as potent as taxol, a promising cancer drug extracted from the bark of the yew tree. McLaughlin is now trying to get companies interested in developing the two chemicals.

FOR THE HIGH-TECH DUFFER, A CRAY-DESIGNED CLUB

Here's news that could lead avid golfers to a lower handicap: MacGregor Golf Co. in Albany, Ga., has introduced the T-920, a golf club made of titanium and designed on a Cray Y-MP supercomputer. MacGregor design engineers, working with Cray Research Inc., simulated the impact of a titanium driver striking a golf ball at 100 miles an hour—the approximate speed of a normal swing. The analysis led to such improvements as a larger head, longer shaft, and special corrugated surfaces on the crown and sole of the club to stiffen the structure. A ball hit with this club, when physically tested, traveled, on average, seven yards farther than one struck with a conventional club, says Clay Long, MacGregor's vice-president for research and development.

The simulation program can also be used to improve the design of tennis racquets or hockey sticks, says Cray Research's Carlos Marino, director of the industry science and technology group. But all this sophistication doesn't come cheap: Suggested retail for the T-920, which will be available March, is \$500 per club.

ARISTOCRAT AMONG CHIPS

HIGH-PRICED FOR THE PC

For chipmakers figured that circuits etched on gallium arsenide wouldn't find much of a market beyond esoteric military and aerospace uses—and perhaps in the fastest personal computers. Although electrons zip through them much faster than through silicon chips, they were hard to make, expensive, and less densely packed with transistors.

Now, VLSI Technology Corp. has done what once was

considered impossible. This month, it announced that it can reliably manufacture gallium arsenide chips with more than 1.2 million transistors. That's about as many as Intel Corp.'s state-of-the-art i486 microprocessor, the heart of today's most powerful personal computers. That means chip designers will be able to transfer their silicon designs to gallium arsenide—and score a two- to fourfold gain in performance. So far, Convex Computer Corp. has been the highest-volume customer for gallium arsenide semiconductors. It uses earlier VLSI chips in its C-3 minisupercomputers, introduced last year.

GROWING CLEAN AIR DOWN ON THE ALGAE FARM

Slimy green algae may be an answer to a serious environmental problem: air pollution. New England Electric System, based in Westborough, Mass., is looking at large-scale algae farming as a way to offset carbon dioxide emissions from its power plants. That's because seaweed and other forms of marine algae consume vast amounts of carbon dioxide, a gas that some scientists suspect is a major cause of global warming. As farfetched as the idea may seem, it's similar to one being explored by some utilities as a way to comply with the Clean Air Act: planting trees. One independent power producer, Applied Energy Services Inc. in Arlington, Va., is planting acres of trees in Guatemala on the theory that they will soak up as much CO₂ as its Connecticut power plant will produce in its lifetime.

Algae farming is still in its infancy. The scant research done to date involves lab experiments in which iron has been used successfully as an algae fertilizer, says Bradley H. Spooner, manager of environmental planning for NEES. Based on early findings, Spooner says algae farming has even greater potential for CO₂ absorption than tree farming. But don't look for any concrete results soon. NEES is still looking for a consultant to help it figure out whether the plan will work.

WANT TO LIVE LONGER? STUDY FRUIT FLIES AND WORMS



Scientists have always thought that all species have a allotted time on Earth, determined by the laws of nature. But new experiments on fruit flies and worms persuade some researchers that aging can be postponed. Created by selective breeding at the University of California at Irvine and the University of Colorado, these "Methuselah" animals live up to twice as long as normal. "Aging is something we can manipulate," says Irvine evolutionary biologist Michael R. Rose.

Among the scores of genes that control life span, the scientists isolated one that plays a crucial role. Both the long-lived flies and worms harbor a gene for a particularly potent form of an enzyme called superoxide dismutase. Because it detoxifies harmful substances in cells, this enzyme may slow the damage that causes aging. When geneticist James E. Fleming of the Linus Pauling Institute of Science & Medicine, working independently, inserted the gene into fruit flies, it boosted life spans by up to 15%.



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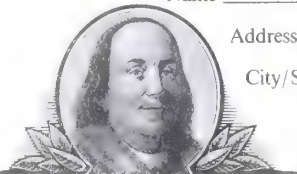
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THE GREEN GIANT? IT MAY BE JAPAN

Environmental equipment and skills could be its hot new products

Two decades ago, Japan was choking on its own filth. Acrid clouds of photochemical smog from car and factory emissions assaulted residents of major cities. Then, two oil crises led to energy shortages and sent prices spiraling. That walloped Japan, a huge oil importer, harder than other industrial countries. Something had to be done.

So the government enacted draconian measures to clean things up. Other laws fostered energy efficiency—a byproduct of which is less pollution. Now, after years of investments that produced dramatic gains at home, Japan is looking abroad. Mitsubishi Heavy Industries Ltd. and Hitachi Ltd., among others, are criss-crossing Europe, Asia, and the U.S., striking deals on equipment or licensing their approach in everything from plant design to waste-water and air-pollution control. The Japanese have a lead over the U.S. and Germany in pollution technology for basic industry, and Tokyo is spending \$4 billion a year to broaden the country's environmental skills. Jerry D. Newton, Far East marketing manager for environmental and geographic information systems at Digital Equipment Corp., has just returned from surveying such efforts. Japan, he confirms, "is starting to target the environmental market."

SEAWEED POWER? The green technologies being developed in Japan span a broad range of industries. Steelmakers, who spew out 25% of the country's carbon dioxide, a greenhouse gas, have slashed energy consumption per ton of steel by 20% since the mid-1970s. Already, the world's most energy-efficient producers, these companies hope to cut energy use a further 10 points with a new process, called direct iron-ore smelting, which is due out in 1994. Meanwhile, Toyota, Nissan, Honda, and Mazda are pushing hard to raise fuel efficiency and slash emissions. And Tokyo Electric Power recently unveiled an electric car that broke two world records. It hit a peak of 109 mph and drove 340 miles on a single battery charge at 25 mph—much faster than U.S. models go.

Innovation isn't limited to smokestack industries. Construction giants Taisei Corp. and Kajima Corp. have integrated systems for creating and transporting waste within office buildings and complexes. Sanyo,

Sharp, and Matsushita Electric Industrial dominate the world market for solar batteries, and Fuji Electric Co. leads in fuel-cell technology. Last year, Matsushita Battery Industrial Co. commercialized the world's first mercury-free alkaline batteries. It licensed the technology to Rayovac Corp., the No. 3 U.S. battery producer.

Now, the Japanese government is funding more exotic projects. The latest, led by the Ministry of International Trade & Industry (MITI), aims to use biotech to make hydrogen, the cleanest-burning of all fuels and one that experts think is the great hope for the 21st century. Making hydrogen now requires huge amounts of electricity to separate the gas from water. MITI's idea is to use gene-splicing and other techniques to boost the productivity of hydrogen-producing microbes and seaweed. If this works, MITI says, the benefits could far exceed those of solar cells and other energy sources it has backed so far.

Whenever possible, Japan is focusing on integrated systems that minimize waste—and create new markets. Nippon Steel Corp., for example, is converting coal ash to zeolite, a mineral used in water treatment. Researchers at the Japan Atomic Energy Research Institute, Chubu Electric

PUSHING FOR GREEN TECHNOLOGIES

Japan is making a major effort to develop and export pollution control gear and expertise

Power Co., and Ebara Corp. are working on a project to convert sulfur and nitrogen oxides—the chief causes of acid rain—in ammonium sulfate and ammonium nitrate which can be used in fertilizers. The technique has been licensed to research groups in the U.S., Poland, and Germany.

To be sure, Japan faces plenty of obstacles. U.S. and European competitors haven't been standing still. Japan produces some of the world's most advanced incinerators, for instance, but relatively few of the 2,000 in operation are rigged to produce electricity. The U.S. has the lead in such cogeneration systems, and the Energy Dept. funds leading research in a broad range of advanced energy technologies.

Moreover, as with earlier efforts in semiconductors and consumer electronics, Japan is starting from a small base. Domestic orders for environmental equipment last year totaled just \$5.8 billion, and exports of such gear account for less than 10% of J-



INCINERATING WASTE

With limited space for landfill, Japan builds powerful, low-emission incinerators for every type of solid and liquid waste

GREENING THE AUTO INDUSTRY The less fuel burned, the less CO₂ released. Japan's auto companies are racking up 'green' innovations, from lighter body materials to lean-burn engines and better catalytic converters

MANAGING STEEL PLANTS Steelmakers produce 35% of Japan's industrial waste, more than any other industry. So the most modern plants are designed to recycle much more heat and waste product

TREATING WASTE WATER Japan's heavy industrial companies are exporting sewage-control and sludge-treatment equipment and expertise to other Asian countries

CREATING ALTERNATIVE ENERGY The best solution to global warming? Cease all greenhouse gas emissions. Japan is the world leader in solar and fuel cell technology

REMOVING CO₂ The government and electric-power companies are doing exotic research, such as using genetically engineered micro-organisms to gobble up CO₂

NEUTRALIZING FLUE GASES A dozen Japanese companies sell equipment to remove sulfur oxides and nitrous oxides from the stacks of steel and electric-power plants

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in's industrial production. Still, by the year 2000, Japanese companies will be banking out \$12 billion worth of waste incinerators, air-pollution equipment, and water-treatment devices a year, predicts the Japan Association of Industrial Machinery. To expand overseas, Japan's strategy is to use joint ventures. In the U.S., Mitsubishi Heavy Industries has teamed up with Morning Inc. in Durham, N.C., to use chemical catalysts to remove nitrogen oxides from coal-fired power plants. Ebara has tapped Zurn Industries Inc. in Erie, Pa., to build industrial waste incinerators—and Ebara director Yoshio Hirayama expects joint venture sales of \$160 million a year by 1993. Ishikawajima-Harima Heavy Industries has licensed its nitrogen-oxides-removal technology for industry and power plants to America's largest boilermaker, Foster Wheeler Energy Corp.

CRUBBING UP. Still, U.S. factories have a weak incentive to buy all this, given cheap energy prices and, by Japanese standards, lax air-quality laws. In fact, although U.S. gross national product is only twice as big as Japan's, America's total emissions of sulfur and nitrogen oxides were many times those of Japan in 1990, says the Organization for Economic Co-operation & Development. The U.S. also accounts for 40% of the world's carbon-dioxide emissions, vs. less than 5% for Japan. "The need for new technology is apparent," says Tatsuya Sato, senior technical officer at Japan's environment agency. "But the gap in energy prices and pollution standards will be a barrier." Even so, the Japanese see opportunity in the new Clean Air Act, which will take effect this decade.

In Europe, where companies such as sea Brown Boveri Inc. have stayed on the technological cutting-edge and where plants are often better equipped than in the U.S., the Japanese have also been signing joint ventures. Ebara recently licensed its incinerator technology to Abfall Beseitigungs Technologien (ABT), which already has orders from the cities of Berlin and Acamer, Italy. And Mitsubishi is working the frontiers. "We're very interested in northern Europe, as well as Poland and Czechoslovakia," says Mitsubishi Heavy General manager Kazuhiko Kusakabe.

Asia, however, is Japan's top priority. The government has earmarked Official Development Assistance (ODA) funds to subsidize environmental projects there. Last summer, for example, MITI proposed bunting aid projects aimed at energy development in China, Malaysia, and Indonesia with ODA subsidies for Japanese environmental equipment purchases.

As competition in environmental technologies heats up, Japan's moves could spark new trade tensions. But then again, maybe not. Competitors will be hard-pressed to claim unfair trade when the issue is aiding the survival of planet Earth.

By Neil Gross in Tokyo



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THESE RADICALS HAVE THE RIGHT WING CHEERING

The Institute for Justice is on a crusade for property rights

The Institute for Justice could be called the ACLU of the right. Modeled after the American Civil Liberties Union and other liberal public-interest groups, the institute is borrowing the successful tactics of these organizations to push a radically different agenda. Instead of focusing on the rights of disadvantaged groups, it's promoting a broad agenda that includes boosting the rights of property owners. And conservatives are cheering. "There are literally hundreds of groups on the liberal side," says U.S. Chamber of Commerce counsel Stephen A. Bokart. "There's room for competition."

Founded last fall, the institute is the brainchild of two foot soldiers from the Reagan Revolution. They are former Energy Dept. counsel William H. Mellor III and Clint Bolick, a former Justice Dept. lawyer who also worked as a top aide to Clarence Thomas at the Equal Employment Opportunity Commission. The institute is partly funded by the conservative David H. Koch Charitable Foundation in Wichita.

These crusaders are hoping to reverse decades of U.S. Supreme Court precedents by breathing new life into the Constitution's guarantee that "no person shall be deprived of life, liberty, or property without due process of law." While liberal interest groups have focused on the first two guarantees, the institute is demanding equal recognition for the third. The change in emphasis could unravel decades of government regulation.

THE FRAY. At the turn of the century, courts took a broader view of property rights. The concept was even used to strike down health and safety regulations that, for example, limited the number of hours children could work. From that time on, courts have emphasized the right to liberty, creating a panoply of protections for criminal defendants and victims of discrimination. Now, conservative legal theorists are pushing the

point that the Constitution makes no distinction between individual liberties and the economic rights of property owners.

This is a propitious time for the institute to enter the fray. More than half of all federal judges are Reagan and Bush appointees, and the Supreme Court is in the grasp of conservatives. Two justices, Thomas and Antonin Scalia, are avowed advocates of property rights. In a Jan. 27 ruling that may foreshadow other decisions, Thomas authored a 6-to-3 opinion

whose Cornrows & Co. has been providing natural braids to local African-Americans for more than a decade. He's challenging a District of Columbia ordinance that would close his salon because his workers are not licensed cosmetologists. "You would think I have a business practicing gene-splicing," says Uqda. "It's ridiculous."

UNFAIR PENALTY. To Bolick and Mellor the cases show how government can stifle free enterprise and individual choice. The institute, which represents Uqda and has filed a friend-of-the-court brief backing Lucas, wants to use such cases to push a libertarian agenda (table). But opponents argue that business regulations protect a broader public interest.

In 1989, the institute scored a victory when a federal judge in Washington D.C., ruled unconstitutional an 84-year-old law banning shoeshine stands. Bolick contends that such laws unfairly penalize outsiders, who often lack income o

THE INSTITUTE'S AGENDA

EDUCATION

Favors school choice programs that let poor students use public money for private schools

ECONOMIC RIGHTS

Opposes restrictive zoning, growth-control ordinances, and job licensing requirements

HOUSING

Opposes rent control and "linkage" laws that force developers to provide low-income housing to get building permits

DATA BW



REAGAN WARRIOR BOLICK: "FREE-MARKET SOLUTIONS"

holding that union organizers could not trespass on company property to recruit members. "We'd be tilting at windmills were it not for a dramatically different judiciary," says Bolick.

The institute is pressing its theories in two pending cases. On Mar. 2, the Supreme Court will hear the case of David H. Lucas, who builds shore homes in his native South Carolina. Lucas is seeking \$1.2 million from the state, which barred him from developing two half-million-dollar seafont lots in 1988 when it passed a law protecting its beaches.

The second case is in federal court in Washington, D.C., and concerns Taalib-Din Abdul Uqda, a Muslim hairdresser

education. As a result of the ruling, Eg Brown, a vendor, still employs homeless people and teenagers. "We want to establish free-market solutions to the problems of low income," says Bolick.

Liberal advocacy groups attack such claims. Says Ralph G. Neas, executive director of the Leadership Conference on Civil Rights: "The institute and its allies refuse to address the systemic, institutional discrimination in our society."

Perhaps. But with conservative courts reinterpreting the Constitution, the institute's agenda may be more in sync with the times, however distasteful to liberal groups.

By Tim Smart in Washington



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THE COLD WAR'S GRIM AFTERMATH

Ironically, communism's collapse is the U.S. economy's new enemy

Why won't the economy grow? Frustrated consumers and businesses, stuck in the longest slump since the 1930s, are blaming their woes on bad real estate, weak banks, and too much debt. But that's only part of the story. Ironically, what's really slowing the economy in 1992 is the most cheerful news in 50 years: the end of the cold war.

With scant attention, the dramatic demobilization of the U.S. defense economy is devastating large portions of industrial America. Defense-related jobs may account for less than 5% of the work force, but defense cutbacks are responsible for about 25% of lost jobs and industrial production since this recession began in July, 1990 (chart). And in the last quarter of 1991, a \$12 billion decline in military outlays dragged down gross domestic product growth by a full percentage point, turning a budding recovery into stagnation.

The drag from defense cuts will continue to depress growth throughout 1992. DRI/McGraw-Hill estimates that about 300,000 defense-related jobs will disappear this year. This number includes all of the ongoing layoffs at defense contractors, as well as the jobs lost at service-sector businesses that indirectly depend on defense spending,

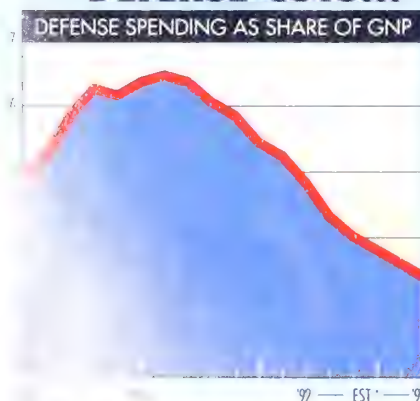
such as supermarkets and banks close to a shipyard or military base. This loss could largely offset the recent stimulus from lower interest rates. Demobilization also is delivering a body blow to America's manufacturing sector at a time when global competition against the Japanese, Germans, and other foreign rivals is heating up. Add it all up, and the eagerly awaited end of the cold war threatens recovery and could dampen growth for years to come.

DREAM DEFERRED. To be sure, America eventually will see enormous gains from the "peace dividend." As military spending declines from 6.1% of gross domestic product in 1988 to an estimated 3.5% in 1997, government spending will fall, and so will interest rates and inflation. More resources could become available for fixing the infrastructure and improving education. Civilian manufacturers, rather than facing a skills shortage in the 1990s as many economists feared, will enjoy a bounty of highly trained workers and engineers. And research-and-development spending will be oriented more toward commercial products that meet customer demand. "It's much better for economic growth if research-and-development money is shifted from the military to civilian R&D," says Lawrence R. Klein, Nobel laureate economist

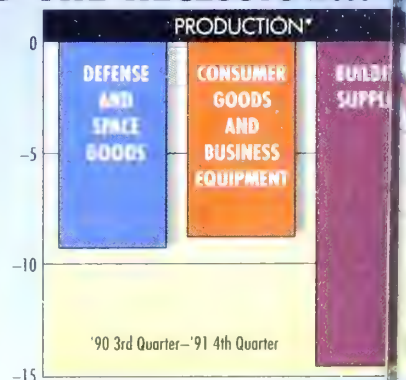
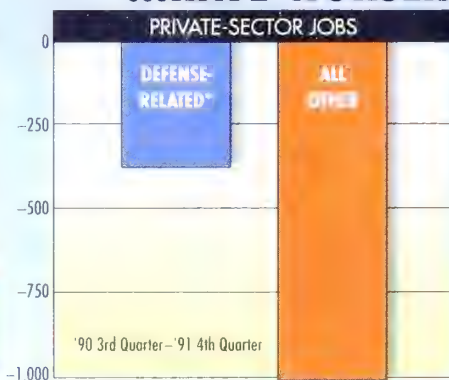
at the University of Pennsylvania.

But it could be years before the U.S. reaps these benefits. According to simulations done for BUSINESS WEEK by Regional Financial Associates Inc., an economic consulting firm based in West Chester, Pa., the transition to a post-cold war economy could depress growth well into 1996. President Bush wants to slice \$50 billion from the defense budget over the next five years. If Congress lops off an additional \$25 billion, as many expect, real GDP growth could be less than 2% annually over the next five years. By 1996, some 1.8 million jobs could be lost and real U.S. output would be almost \$90 billion lower. If defense is slashed by \$150 billion over five years, as some in Congress are calling for, real GDP growth could crawl along at a 1.6% annual rate, and a staggering 3.3 million jobs could be gone. "With the big cuts, the economy stagnates until the

DEFENSE CUTS...



...HAVE WORSENED THE RECESSION...



▲ THOUSANDS

*DIRECTLY AND INDIRECTLY

▲ BILLIONS OF '82 DOLLARS AT ANNUAL RATES

DATA: BW, DRI/McGraw-Hill, FEDERAL RESERVE

*INCLUDES ALL FINAL AND INTERMEDIATE PRODUCTS, BUT NOT MATERIALS





cond half of the decade," says Mark
indi, an economist at RFA (charts).
Indeed, for the first time since 1940,
the U.S. economy will have to find ways
to grow without a major boost from de-
fense spending. Even after the Korean
and Vietnam Wars ended, the cold war
continued. Not this time. "The defense
industry has always been cyclical since
World War II, largely because of dumb
things the Soviet Union has done," says
Hughes Aircraft Co. CEO Malcolm Cur-
rie. "Now, we are in retreat to a lower
and permanent plateau."

Clearly, the defense cutbacks weigh
heaviest on the industrial sector. For the
past 10 years, military needs have con-
sumed much of the output of the elec-
tronics and aerospace industries, two of
America's premier high-tech businesses.
Now, these industries will have to find
other markets. Both the public and the
companies had ample warning of what
was coming, says Bernard Schwartz,
chief executive of Loral Corp., the big
New York-based defense electronics
company. "But," says Schwartz, "I'm
not sure that we or anyone else were

prepared for the precipitous nature of
the decline."

The rapid demobilization is fast threat-
ening America's industrial might. Over
the past two decades, the U.S. has
poured billions into training defense
workers, who now make up the nation's
most highly skilled and educated work
force. Now that investment is being lost,
as technicians and engineers are being
laid off by the thousands in the defense
industry. And many won't find jobs that
use their skills. Says William Beeman,
director of economic studies at the Com-
mittee for Economic Development, a re-
search organization based in Washing-
ton, D.C.: "It would be an enormous
loss of human capital."

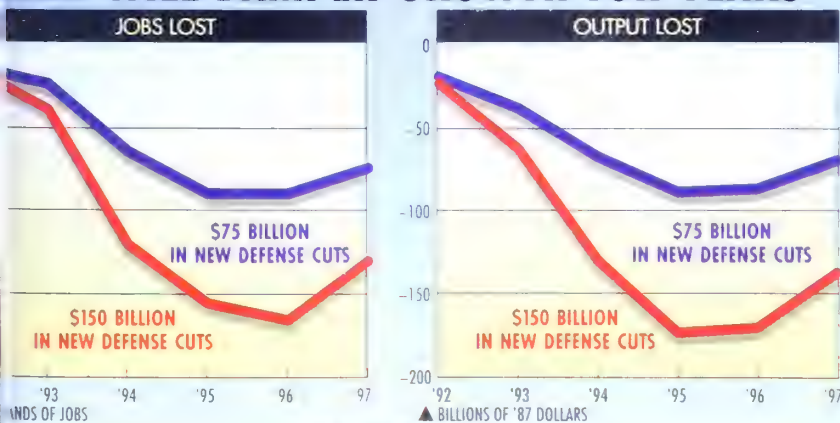
LONG GONE. Over the past two years,
makers of such defense goods as com-
munications equipment and guided mis-
siles have lost some 100,000 white-collar
jobs. That accounts for about 40% of the
overall drop in white-collar manufactur-
ing employment. Highly skilled shop-
floor workers, such as machinists, are
also losing jobs as the Defense Dept.
continues to slash the production of new
weapons systems. "They don't all expect
to find other jobs, and many will remain
unemployed for a long time," says Mur-
ray Weidenbaum, formerly President
Reagan's economic adviser and current-
ly director of the Center For the Study
of American Business at Washington
University in St. Louis.

Laid-off defense workers aren't about
to find jobs that pay as well or use their
skills in this weak economy. Few compa-
nies are hiring in the midst of the slump,
and even when the economy does pick
up, no one expects a hiring binge. In-
deed, such giants as IBM, GM, and Du
Pont have announced their intention to
slash their work forces over the next
few years in an effort to become leaner
competitors in a global economy.

Compared with previous demobiliza-
tions, jobs will prove harder to find this
time because manufacturing makes up
much less of the economy. After the
Korean War, 35% of the work force was
employed in manufacturing. After Viet-
nam, the figure was still a hefty 28%.
Today, it's only 17%, as the U.S. has lost
home markets to foreign competition
and companies have moved factories and
blue-collar jobs overseas. "These are the
kind of jobs we're not creating in the
U.S. economy and haven't been for 20
years," says Gordon Adams, director of
the Defense Budget Project, a think
tank based in Washington, D.C.

That's what's worrying Matt Kovach.
Until last August, he managed the de-
velopment of a navigation-system proj-
ect for the Trident II missile at General

AND WILL DAMPEN GROWTH FOR YEARS



Electric Co.'s defense systems division in Pittsfield, Mass. But after being laid off, Kovach, married and the father of a 2-year-old son, has sent out more than 500 résumés—and gotten no takers.

The same goes for Ben D'cruz, an American success story. A 1972 immigrant from Malaysia who later became a U.S. citizen, D'cruz was laid off last March from his \$48,000-a-year job as a production manager at Norden Systems Inc., a division of United Technologies Corp. on Long Island. He has applied for jobs paying as little as \$19,000—but so far, no dice. D'cruz has depleted much of his 401(k) retirement savings and is making ends meet through unemployment insurance and his wife's earnings. "It's very tough out there," says D'cruz. "Even if you go out of Long Island, it's happening all over."

And those skilled workers who find another profession often have to accept a substantial pay cut. Greg Hughes, 35, was pulling down \$50,000 as a research engineer at a General Dynamics Corp. aircraft manufacturing plant in Fort Worth. He lost his position in January, 1991. After three months of job-hunting, he became a mortgage loan officer for residential real estate, making about \$35,000 a year in commissions. Says Hughes: "My technical background is wasted."

TRICKLE-DOWN. The defense cuts are not just slicing up the work forces of the largest companies, such as GD and Rockwell International Corp. The ripple effects reverberate throughout the economy. Economists estimate that for every job cut by a prime contractor, an equal number of jobs is lost by that company's subcontractors and suppliers. Small businesses of all stripes that depend on military sales for their livelihoods are feeling a lot of the pain from peace. Take Engineered Support Systems Inc., a small defense contractor in suburban St. Louis, which makes water purification systems, military heaters, and field laundry equipment. Its 250-member work force is down from 400 two years ago and a peak of 635 in 1987, according to CEO Michael F. Shanahan Sr.

The defense demobilization is hitting

almost every region. No state seems exempt, perhaps because the politics of defense spending required spreading money around the country. Of course, some areas are hurting worse than others. Connecticut's second-largest employer, GD's Electric Boat Div. in Groton, plans to lay off from 2,200 to 4,000 of its 17,000 workers this year because the military plans to cancel the Seawolf nuclear submarine program. Connecticut's plight will only get worse, since defense-related companies account for about a

ready are moving to stem the pain. Los Angeles County, for example, wants to build up a transportation-railcar manufacturing base in Southern California to offset severe job loss in its aerospace-defense industry. Connecticut has its Office of Defense Diversification, with \$12.5 million in loans and grants for defense companies that want to develop commercial businesses. For example, Textron Lycoming, an aircraft engine and tank engine manufacturer based in Stratford, managed to sign a \$250 million deal with British Aerospace PLC for 20 commercial jet engines with the aid of a \$3 million state grant. The state's venture-capital fund also set aside \$2 million to invest in new commercial products developed by defense companies.

Some states are also taking advantage of existing programs not specifically directed at the defense industry. Ohio has just received a Job Training Partnership Act grant of \$560,000 to retrain 235 of 500 General Dynamics workers laid off in Lima as a result of cutbacks in the

SMALLER DEFENSE CUTS THIS TIME, BUT THE ECONOMY HAS BEEN WOBBLING LONGER



POST-KOREA
1953-56

Percentage point
drop in defense
share of GNP

4.2

Length of postwar
recession (months)
DATA: BW

10



POST-VIETNAM
1968-73

3.6

11



POST-COLD WAR
1988-97*

2.6

18+

*Assuming \$75 billion in new defense cuts

quarter of that state's 322,300 manufacturing jobs.

In Charleston, S. C., the Navy's third-largest home port, the Charleston Naval Ship Yard has announced that it will eliminate 1,500 of its 8,000 jobs by March. The economic impact of demobilization could spread, as the combined payroll for all defense-related jobs in 1990 accounted for 34% of that metropolitan area's total payroll. And in the Dallas-Fort Worth area, half of the 22,000 manufacturing jobs lost last year were in the defense sector. San Diego's 1991 job loss numbered 14,000, almost one-third defense-related. And so on, around the country.

Many state and local governments al-

State and local governments are just starting to stem the pain with job programs and grants to retool businesses

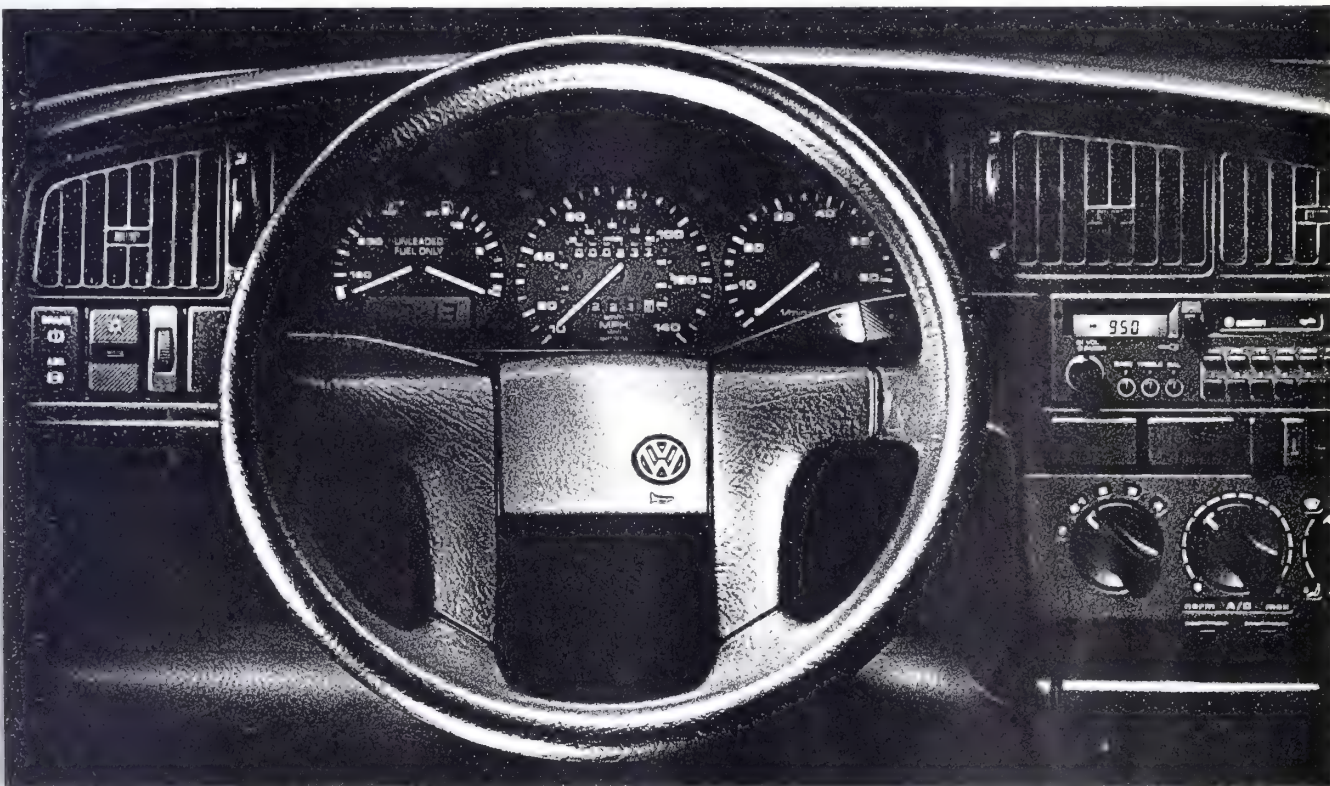
Abrams tank program.

And on the national level, a growing band of industry leaders and Washington-based policy makers are calling for vigorous federal initiatives to help bring talented ex-defense workers into the commercial sector (page 82). President Bush's 1993 budget takes a tentative step toward such a policy by proposing a small hike in federal R&D spending targeted toward civilian programs such as biotechnology.

But that modest increase represents only a glimmer of recognition of the dire economic impact that the end of the cold war is having on the U.S. economy. The demobilization of America, which holds the best promise in memory of being permanent, is a cause for celebration. But without decisive actions by government and business to rebuild industrial America, the benefits of peace will be a long time coming.

By Christopher Farrell and Michael J. Mandel with Thane Peterson in New York, Amy Borrus in Washington, Resa W. King in New Haven, James E. Ellis in St. Louis, and bureau reports

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Commentary/by Karen Pennar

DEFENSE CUTS DON'T HAVE TO WOUND THE ECONOMY

The end of the cold war is a blessing. Now, let's make sure that it doesn't become a curse—an economic curse, that is.

The loss of about 1.8 million defense and related jobs over five years should not spell disaster for the economy, and the cancellation of major weapons programs need not erode the U.S. industrial base. In a \$6 trillion economy that has more than 115 million people at work, these blows should be readily absorbed.

Yet they might not be, for two reasons. First, the defense spend-down is gathering speed during a recession, when the economy is already vulnerable. Second, over the longer run, job creation requires that the U.S. manufacturing base be far more globally competitive than it is today. For 40 years, defense has been the stellar performer in manufacturing—thanks to the largess of its largest and steadiest customer, the Pentagon. Above all, it benefited from what amounted to a covert industrial policy—receiving federal funds for research and development. Today, there is little discussion, much less agreement, over whether that vital prop to the defense industry should be replicated in the civilian sector.

This means that the threat to the U.S. economy from defense cutbacks is greatest in the near term but carries serious longer-run risks as well. Officials in large defense-dependent states, such as Washington, Connecticut, and California, are already devising plans to cope with cutbacks. But they expect the federal government to play a role, too—an active one. Says Colorado Governor Roy Romer, a Democrat who sparred recently with George Bush over defense cuts: "If you have twice as many jobs cut out because of [defense] cutbacks, you ought to have twice as much attention in terms of assistance."

The demobilization of America needs to be managed. Here's how:

Economic assistance. The Defense Authorization Bill of 1991 earmarked \$200 million over a three-year period for economic help to individuals and communities, with 75% to go toward job retrain-

ing and the remainder toward community economic development projects. Thanks to delays in Washington, only about \$2 million of this already paltry total has been allocated. At the least, these monies should be disbursed. And Congress ought to consider allocating still more funds for both job retraining and community development assistance.

Then, too, there's the risk of losing the benefits of the "initial training" in work discipline and technical skills received by members of the armed forces, says Robert B. Reich, political economist at Harvard University's JFK School of Government. Demobilized servicemen and women might benefit from further instruction for technical



jobs in, say, telecommunications, aerospace, and health care industries. And people who otherwise might have joined the Army to receive technical skills might profit from nationally sponsored training and certification at vocational schools.

Industrial policy. We can call it something else to placate the critics, but Congress should consider a long-term growth strategy. Even executives are beating the drums. Urges Malcolm R. Currie, chief executive officer of Hughes Aircraft Co. in Los Angeles: "This country needs an industrial policy. There are rich pools of technology and talent in the [defense] industry that can be applied over time to other markets."

For a coherent policy to work, the federal government, using tax incentives or direct subsidies, would encourage the research and development of new and critical technologies, such as superconducting. The Pentagon has, in effect, done this for decades—by funding academic research, national laboratories, and corporate R&D. And weapons procurement itself, of course, involves extensive research and testing. Spin-offs to the civilian economy, from semiconductors to microwave ovens, have resulted, although the payoffs from defense research have trailed off in recent years.

SOFTENING. Since the Pentagon is slashing spending mostly in weapons programs and leaving research relatively unscathed, this defense industrial policy will continue. But Washington is slowly recognizing that it must support more civilian research. The latest federal budget includes a small shift in federal research funds from military projects to civilian ones. Now, 59% of the total research budget of \$74 billion will be allocated to defense work rather than the previous 60%. That's not enough. Some economists propose a civilian technology agency modeled after the Defense Advanced Research Projects Agency, the small Defense Dept. arm that has financed many innovations.

Reagan and Bush Administration officials have long railed against industrial policy on the grounds that it puts federal funds at risk and government in the position of "picking winners and losers." But some people detect a softening in that attitude. It was easier to let the market take care of unemployment when the Midwest was losing manufacturing jobs in the 1980s. Then, there was rapid job creation elsewhere in the economy—in high tech, services, and notably in defense. But today, as manufacturers and service companies shed jobs across the country, defense workers have fewer alternatives. In this environment, retraining and community assistance can go only so far. People may soon demand that government help spur the new industries that will provide jobs and growth in the post-cold-war world.

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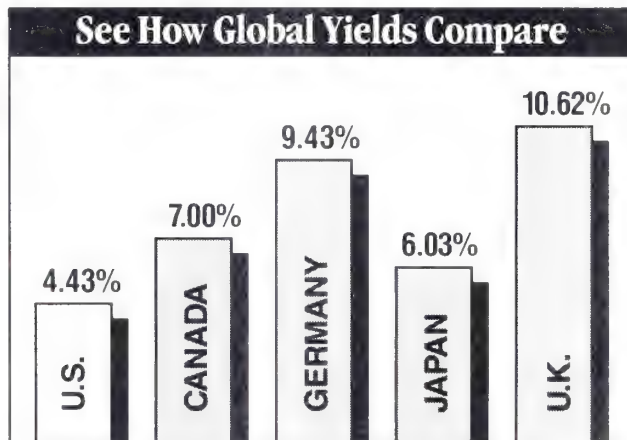
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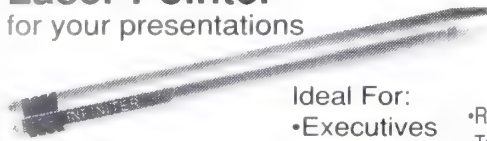
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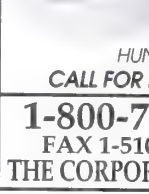
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THE CORPORATE CHOICE

\$183 MILLION FOR THE CELTS? NOW THAT'S A STRETCH

Is Boston on the block? Here's why it might be

Larry Bird can make your jaw drop with his seeing-eye passes and shooting touch, but he isn't the only flashy player on the Boston Celtics. In 1986, a year after owner Don F. Gaston and two partners bought the National Basketball Assn. franchise for \$17 million, Gaston sold 40% of the team to the public in a deal that set the Celtics' market value at \$120 million—and left the partners with total voting control.

That was then. Now is very different. Bird, when healthy, is still a franchise player, but Gaston doesn't look so sharp. Two years ago, he and partners Alan N. Cohen and Paul R. Dupee Jr. bought a Boston radio station and a TV station to broadcast Celtics games. However, the

partners admit in Securities & Exchange Commission filings that both stations have been hemorrhaging cash from day one. The partners are not talking, but sources familiar with the team's operations say the broadcasting fiasco has the owners at odds over what to do with the team. They've asked Morgan Stanley & Co. for advice. The Wall Street firm is out shopping the stations—and the Celtics. Price: \$200 million.

That's quite a premium. The stations are worth less than the \$16.4 million Gaston paid for them, say broadcast in-

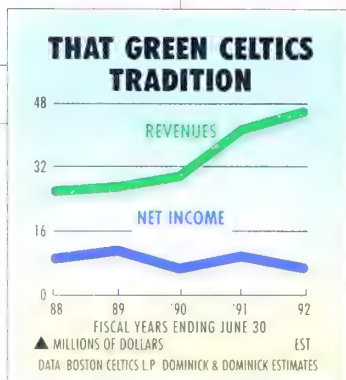
dustry sources, and the \$183.6 million balance of the asking price would be more than double the record paid for an NBA team—\$90 million for the Orlando Magic late last year. The team's market value is about \$129 million, based on the price, about \$20, that Celtics limited

partnership units have fetched recently.

Still, there's at least one interested buyer: Delaware North Co., which along with its real estate and food service holdings owns the National Hockey League's Boston Bruins and the Boston Garden—the Celtics' and the Bruins' home arena. Says Lawrence C. Moulter, who runs the

Garden for Delaware North: "Whether we own the team or just make an investment, there's a certain logic to it."

The logic may be that ownership of the Celtics could translate into financing for a new Boston Garden. Delaware North originally planned to build a 18,000-seat, \$150 million arena by team



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with developers who wanted to build three office and hotel towers on nearby company-owned land. The new Garden could be paid for with profits from the towers.

The deal fell through when the New England real estate market tanked in 1990. But the Celtics' profits, added to a larger share of the \$1 million in annual income from a new Garden's luxury boxes, might well be the key to new financing.

Similar deals have worked before. The Detroit Pistons, for example, parlayed luxury-box lease commitments from wealthy fans into financing for the 21,454-seat Palace of Auburn Hills. Paramount Communications Inc. owns Madison Square Garden, the NBA's Knicks, the NHL's Rangers, and cable-sports channel MSG, which shows both Knicks and Rangers games. Gaston and his partners may have borrowed the "total sports" concept from

Paramount, in fact. The three met while working at Gulf & Western, Paramount's corporate predecessor, in the early 1980s.

A larger question is the Celtics' prospects. The once-mighty Celtics haven't reached the finals of the NBA playoffs since the 1986-87 season. Bird, plagued with a bad back, is considering retirement at the end of the season. At 38, center Robert Parish is the NBA's oldest player. And 34-year-old forward Kevin McHale, out with a bad calf, is also not long for the game. Any potential buyer would have to wonder if the Celtics, which have a 15-year waiting list for season tickets, can keep selling out.

The team's finances also bear scrutiny. Revenues are rising, thanks to the NBA's TV contracts and higher ticket prices, but soaring player costs are dragging down profits (chart). Peter A. Russ, an analyst at Dominick & Dominick Inc., a Wall Street investment

firm, says the team's \$25 million payroll this season will likely cut the cash dividend to about \$1.80 this fiscal year from \$2.25 last year. Were it not for takeover talk, he says, the partnership units would be trading at around \$15.50 or \$16. They went public at \$18.50.

A CLASH? A sale may never occur, however. Gaston and his partners wouldn't comment for this story, but a source close to them says they consider Delaware North a hostile suitor. And Gaston has insisted publicly that he wants only to "restructure" team ownership while keeping control. But a source in the Boston sports community says Dupee is prepared to sell. Cohen's wishes are unknown.

The Celtics aren't Gaston's only problem. Sportswriters Filip Bondy and Harvey Araton rough him up in their new book about the Celtics, *The Selling of the Green*. And Gaston is the defendant in a multimillion-dollar palimony suit.

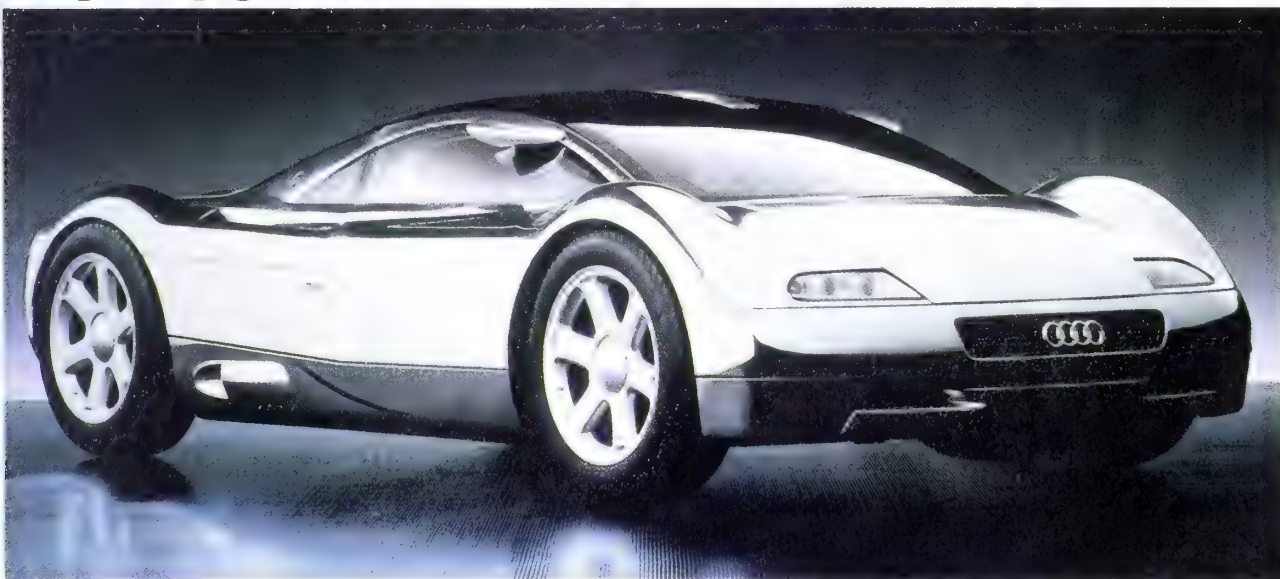
The owners seem destined for a clash with potential buyers. Suitors—whether they invest or buy—will surely have trouble paying the premium asked without gaining a management say. Gaston may have pulled a three-point play when he took the team public, but this time he's unlikely to score a big one so easily.

By Geoffrey Smith in Boston



THE CELTS HAVEN'T MADE THE NBA FINALS SINCE '87

AUDI SURPRISE HIT OF TOKYO AUTO SHOW.



At this year's Tokyo Auto Show, an unexpected entry emerged as the runaway showstopper: The Avus Quattro from Audi. The Avus boasts a high-strength alloy body, 509 horsepower, and a 60-valve, 12-cylinder engine. Even more impressive may be its 0-60 time of less than 3 seconds. Since Audi is rumored to be creating only a limited number of this exotic car for the European market, American car buyers may want to consider Audi's other, more practical, new model—the Audi 100 V-6. With 172 hp, ABS and driver's side air bag standard, the all-new Audi 100 also features a more reasonable price tag: \$28,500* —KARL TREUTLER, DETROIT

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SHOOTOUT IN TICKERTOWN

The free-for-all means cheaper, better financial data for users

When Citicorp acquired Quotron Systems Inc. in 1986 for \$680 million, it seemed like a sure-fire strategic move. Quotron was by far the leading U.S. provider of stock-market quotes, with 100,000 terminals in brokerage firms.

Six years later, Quotron's hegemony has evaporated. It faces some 30 competitors, and its roster of terminals has fallen to 60,000—vs. 70,000 for rival Automatic Data Processing Inc. To defend its market share, Quotron has cut prices by nearly two-thirds in the past three years. And although Citicorp has pumped in more than \$1 billion, Quotron has yet to turn a profit. After taking a \$400 million write-down in December, Citicorp is considering unloading the unit.

RAMPANT RIVALS. That's the way things are in the \$4 billion industry that supplies real-time stock, bond, and foreign exchange quotes and prices to Wall Street traders and brokers. Once-comfortable monopolies and oligopolies are being undermined by rampant competition. "It's really amazing how leadership in the industry has changed overnight," says New York consultant Tom Jordan. "Quotron was the big guy, but now they're struggling."

As is often the case, technology has caused the change. Data that were once expensive and often proprietary are rapidly becoming commodities available from a growing number of vendors. Faced with falling prices and shrinking margins, former industry leaders are fighting to offer more value-added services, such as transactional systems and analytical tools. But the startup costs for these ventures have managed to put

further pressure on profits.

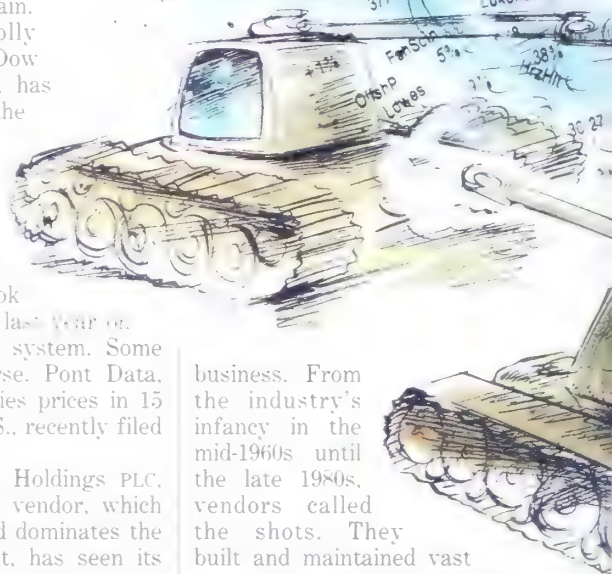
Quotron is not the only company feeling the pain. Telerate Inc., a wholly owned subsidiary of Dow Jones & Co. since 1990, has seen its monopoly in the government-securities market erode and has been having difficulty penetrating the foreign exchange market. Although Telerate is still profitable, Dow Jones took a \$32 million write-down last year on Telerate's forex trading system. Some vendors have fared worse. Pont Data, which distributes securities prices in 15 countries outside the U.S., recently filed for bankruptcy.

Even mighty Reuters Holdings PLC, the world's largest data vendor, which has 200,000 terminals and dominates the foreign exchange market, has seen its earnings growth fall off. In 1991, pretax profits rose just 6.3%, to \$636.3 million, while revenues were up 7.1%, to \$2.74 billion. Pretax profits had risen 31% in 1989 and 13% in 1990. By contrast, aggressive players such as privately owned Bloomberg Financial Markets, a small but rapidly expanding data purveyor, are grabbing market share from the leaders.

All the turmoil could mean disruption for users, but, on balance, they have benefited at vendors' expense. Users are getting more and better data at lower prices, which should produce more efficient markets.

The gales of creative destruction have raged most furiously in the stock-quote

business. From the industry's infancy in the mid-1960s until the late 1980s, vendors called the shots. They built and maintained vast branch networks for securities firms and distributed stock-exchange data over dedicated terminals. Once a brokerage house formed a relationship with a vendor, it wasn't easy to get a divorce. The dominant vendors had few rivals. "In the early days of Quotron, the infrastructure to get data feed from the exchanges was expensive," says Bruce Peterson, president of EJP Partners, a consortium of securities firms that distributes fixed-income data. **'SLOW TO ADOPT.'** Today, customers are in the driver's seat. With the advent of personal computers and local area networks, firms can design and build their own systems. "Customers are a lot more sophisticated today than they were a



HOW DATA WARS RIVALS STACK UP

Competition is heating up in the \$4 billion business for real-time financial market data. Easier and cheaper access to technology has eroded once-secure monopolies, attracted new vendors, and given customers more clout. All of which has been good news for brokers and traders

REUTERS HOLDINGS

British company dominates worldwide market for foreign exchange data and trading systems but has had less success competing in U.S. capital markets

TELERATE

Dow Jones & Co. subsidiary is supplier of U.S. Treasury prices. Having trouble dislodging Reuters lead in foreign exchange price trading systems

NUMBER OF TERMINALS

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90,000



quotes, through an exclusive arrangement with broker Cantor Fitzgerald. But in 1987, the General Accounting Office, at Congress' request, issued a report calling for wider distribution of prices. To avoid government intervention, the Public Securities Assn., an industry group, recently launched GOVPX, using quotes from other brokers.

Increased access to Treasury prices has been good news for Telerate's competitors. "GOVPX is helping us, because it's opening up Telerate's historical monopoly," says Brian Vaughan, president of Reuters' Americas group. Adds Don Totter, deputy managing director of Knight-Ridder Financial, a fast-growing unit of Knight-Ridder Inc.: "We're closing major deals that wouldn't have been available to us."

With Treasury prices becoming a cheap commodity, Telerate has realized somewhat belatedly that it needs to add more value-added services. "There is an awful lot of pressure for cost-cutting," says Henry Becher, executive vice-president of Telerate. "Vendors are being asked to provide more for the same amount of money." Telerate is beefing up its analytics, which allow customers to evaluate their portfolios under different risk and interest-rate scenarios, and adding historical data. "We were a little

late in both these areas," concedes Carl M. Valenti, president of Telerate and senior vice-president of Dow Jones. Telerate's sluggishness in introducing analytics helped upstart Bloomberg Financial Markets gain a beachhead in the fixed-income market.

The longest-surviving monopoly has been Reuters' domination of the foreign exchange market, which trades \$600 billion daily. In addition to being the main source of prices, Reuters handles 35% of the trades on a transactional system that is essentially a high-speed telex. The rest are done over the phone through brokers or between traders. Telerate's efforts to break into forex transactional systems have been relatively unavailing so far. Eric S. Philo, a Goldman, Sachs & Co. analyst, estimates that Dow Jones has lost as much as \$100 million on The Trading Service, a transactional system that has been slow to catch on.

BLACK-BOX BROKERS. Competition, though, is heating up. In September, 1990, Quotron launched F/X Trader, a transactional system that has won new customers. But the biggest action is the race to develop automated systems that anonymously match trades without brokers. Reuters is rolling out its long-delayed Dealing 2000-2 (BW—Feb. 17). Quotron plans to enter automated matching through a joint venture with a consortium of 11 U.S. and European banks. Telerate has allied itself with MINEX, a Japanese forex matching system.

With Reuters, Telerate, and Quotron all planning to offer similar matching systems, one vendor seems bound to be knocked out. "There simply isn't room for three systems," says Albert Soria, a foreign exchange trader at Kansallis-Osake-Pankki in New York. With its commanding lead, Reuters is unlikely to be the loser, but competition could squeeze margins.

In short, the halcyon days of monopoly franchises seem gone for good. "This business isn't as much fun as it used to be," says Dennis Waters, president of Waters Information Services, an industry consultant. But it's a lot more fun for the users.

By Monica Roman in New York

QUOTRON SYSTEMS

Head of Quotron for No. 1 in U.S. stock quotes. Positioned by sizable presence in brokerage back-office

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Beleaguered Citicorp unit is battling to regain former leadership in U.S. stock-quote business. Also fighting Reuters in foreign exchange

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Aggressive upstart whose exclusive analytical offerings have let it make inroads into the U.S. fixed-income market. Also aided by rapidly growing news service

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BY GENE G. MARCIAL

AFTER SEVERAL ALTERATIONS, SINGER LOOKS SHARP

Remember the once-ubiquitous Singer sewing machine? True, it's no longer among the nation's hottest products. But overseas, particularly in East Asia and Latin America, sewing machines are selling like hot cakes. And Singer has re-emerged as a new company whose stock has zipped up from 14½ to 20 since its Aug. 2 initial public offering.

For investors "looking to participate in the rapidly expanding markets abroad, especially in the so-called emerging countries, Singer is the stock to own," says Chris Helton, a portfolio manager and director of equity research at Security Pacific. He notes that Singer is again thriving as a sewing-machine maker as well as a worldwide distributor of consumer-electronic appliances. The bulk of its sales and earnings come from overseas.

In the 1970s and 1980s, Singer deemphasized sewing machines in favor of aerospace and computers (prior to the company's takeover by Paul Bilzerian). The sewing-machine operation was spun off in 1986 and renamed SSMC. In 1989, Semi-Tech (Global), a Hong Kong company headed by James Ting, acquired SSMC. As new chairman and CEO, Ting reinstated the Singer name and took the company public last year.

Now listed on the Big Board, Singer is "very attractive as an earnings-driven company," says Helton, "and we think its undervalued stock will double over the next 12 to 18 months."

'POWERFUL NAME.' Another Singer bull is Merrill Lynch, which managed the company's recent stock offering. Merrill analyst Jonathan Goldfarb says Singer is putting to good use "its powerful brand name and global-distribution system, which has been revitalized in recent years." With 35,000 outlets around the world, Singer sells other consumer appliances, such as cassette players and VCRs, using the Singer label. The company has attractive contracts with such original-equipment suppliers as Sony, Philips, and Matsushita Electric Industrial.

Singer is trying to resuscitate sales in North America, which contribute about 15% of total sales. Earnings at Singer have risen to \$22 million in 1991 from \$13 million in 1989, thanks in part to such big U.S. customers as



Wal-Mart Stores and House of Fabrics.

So, in spite of the recession, Singer's earnings and return on equity "have improved impressively," says Goldfarb. Last year, earnings jumped to \$1.36 a share from 1990's \$1.02, and Goldfarb expects net to hit \$1.55 a share this year and then rise 10% to 15% in 1993. Also impressive, he notes, is Singer's modest long-term debt of \$24 million.

A FORMER BULL SAYS: HIBERNATE

Investors who have taken Richard Eakle's investment advice in recent years have made a bundle. As one of the intrepid bulls of the 1980s, Eakle made a number of bold and brilliant market calls. His recent biggie was urgent advice on Jan. 16, 1991—the eve of Operation Desert Storm—to aggressively buy, buy, buy. The Dow racked up 450 points through April, when the market started to pull back. But his continued bullishness paid off again in December, when the Dow started its giant move that brought it to record highs in January.

The word from Eakle now: sell. "I see a pullback that should hammer the Dow down 5% to 7% and the NASDAQ 15%," he warns. While he thinks the secular uptrend from 1982 is intact, "the current upleg has pushed to its limits for the short-to-intermediate term," says Eakle, publisher and editor of *Eakle Report* in Fair Haven, N. J.

He sees a lot of dire warning signs. Market advisers have turned overwhelmingly bullish—60%, vs. 19.1% bearish—the most bulls and the fewest bears since Aug. 25, 1987, two months

before that year's Monday crash. Moreover, the "negative divergence" that now exists between the Dow Jones industrial and transportation averages is reminiscent of such occurrences that preceded serious market declines in past years. The Dow industrials hit a record high of 3276 on Feb. 12, while the transports remain way below the 1540 peak registered on Oct. 19, 1989. And that, warns Eakle, means trouble.

He has been heavily shorting stocks, led by biotechs and drugs. At the top of his list: American Home Products, Johnson & Johnson, Immune Response, Merck, Borland International, and U. S. Surgical.

SLY MOVES AT FOXMEYER?

Some pros are snapping up shares of FoxMeyer as a backdoor drug-stock play. As the nation's third-largest wholesale drug distributor, FoxMeyer is an "attractive way to participate in the drug industry's rapid growth," says portfolio manager Ron Breitweiser of Clairvest.

But the real excitement over FoxMeyer, now trading at its book value of \$13 a share, is its potential as a deal stock. FoxMeyer's co-chairman is takeover pro Abbey Butler, who heads Centaur Partners, which owns 18% of National Intergroup, which in turn owns 67% of FoxMeyer. Intergroup has shopped for a buyer for FoxMeyer, which went public in mid-August at 14½. But so far, Centaur has been cool to unofficial feelers from some industry majors, which apparently have not come up with the right price. Still, several corporate insiders, including Butler, have been buying shares in the open market. Speculates one investor: "Why did these insiders buy more shares after taking FoxMeyer public? The answer may be that they have become more aware of a deal in the making."

Breitweiser says he wouldn't be surprised if a buyout surfaces. But even without a deal, he thinks FoxMeyer is a must-buy based on its improving fundamentals: "In about six months, the pros who buy into companies that they surmise will post a positive earnings surprise will be flocking to FoxMeyer," Breitweiser says. He expects the company to earn \$1.30 a share in the year ending Mar. 30, 1993, up from an estimated \$1.10 in fiscal 1992 and \$1.05 in 1991. Breitweiser thinks the stock will double in a year.

THIS TIME, IT PAYS TO BE NEARSIGHTED

Investors are flocking to short- and intermediate-term bond funds—and with good reason

When interest rates dropped in the mid-1980s, yield-hungry investors barreled into long-term U.S. government bond funds, only to suffer large losses when rates shot up in 1987. They then turned to "high-yield" bond funds. But the junk-bond market collapsed, big issuers defaulted, and the value of the funds plunged. Now, with bank interest rates at a 20-year low, people are pouring money into mutual funds that invest in shorter-term bonds. Will the crowd be wrong again? Not likely. This time, bond-fund buyers are finally getting it right. In equity funds, it's best to invest for the long run. But in bond funds, shorter is better—whether it's corporate, government, municipal, or international. In fact, 27 of 36 bond funds that won the top performance rating in the BUSINESS WEEK Mutual Fund Scoreboard are short- to

optimal fixed-income investment is weighing how much more risk you have to take for the extra yield.

Investors can't take all the credit for flying to shorter-term funds. They are responding partly to what mutual-fund companies promote. Says Avi Nachmany of Strategic Insight, a mutual-fund consulting firm: "These 'low-volatility' funds have been designed for winning customers from depository institutions, and they've been very successful."

Not all short-term or "low-volatility" funds are alike. The funds get a lot more specific in their prospectuses. In general, most short-term funds keep their portfolio maturities below three years. Intermediate funds may stretch as high as 10 or 12. Beyond that, a bond fund is usually considered long-term.

Long-term yields look really tempting right now. Francis H. Trainer Jr., head

of fixed-income investing at Sanford C. Bernstein & Co. and portfolio manager of the top-rated Bernstein Short Duration Plus Fund, says that most of the time, investors pick up only an additional 0.5 percentage points in moving from short- to intermediate-term securities, and another 0.5 percentage points for going long-term. A two-year Treasury note currently yields only 5%, and a 30-year bond, 7.8%. That's an unusually high difference between short- and long-term rates.

JUNK BUNK. But beware the long term. If interest rates go up one percentage point, the price of short-term bonds may be cut by 2%; the intermediates, 5%, but the long-term, 12%, offsetting 18 months of interest. Says Trainer: "The risks in long-term bonds are such that you might as well buy equities."

Of course, none of this mattered much in 1991, when interest rates fell. Bonds soared and bond funds scored the best total returns since 1985. The juiciest returns came from high-yield corporates, or junk-bond funds, up 38.7%. But that's only a rebound from several disastrous years. The longer-term returns tell the real story. A thousand dollars invested in the average junk fund at the start of 1989 would have grown to only \$1,185 at the end of 1991. That's less than what the average money-market fund would have returned.

Moreover, few junk-bond investors stuck around for the rebound. Consider the Dean Witter High Yield Securities Fund, which two years ago had about \$1.1 billion in assets. In 1990, it posted an abysmal negative 40.1% total return, and shareholders left in droves. Despite a 67.2% bounce-back in 1991, the fund now has only about \$425 million



Type of fund	Total return*		
	1991	1989-91**	1987-91**
CORPORATE-HIGH-YIELD	38.7%	5.8%	6.4%
CONVERTIBLE	27.0	11.5	8.4
CORPORATE-GENERAL	17.3	10.4	8.6
CORPORATE-HIGH-QUALITY	15.3	11.7	8.9
GOVERNMENT-TREASURY	14.7	12.2	9.5
GOVERNMENT-GENERAL	14.0	11.5	8.4
GOVERNMENT-MORTGAGE	13.9	12.1	9.2
MUNICIPAL-HIGH-YIELD	11.7	9.2	7.5
MUNICIPAL-INSURED	11.7	9.2	7.3
MUNICIPAL-GENERAL	11.6	9.1	7.3
INTERNATIONAL	11.0	10.5	9.3
TAX-EXEMPT FUND AVERAGE	11.6	9.1	7.3
TAXABLE FUND AVERAGE	19.0	10.4	8.3
ALL BOND FUND AVERAGE	15.6	9.8	7.8
LEHMAN BROS. GOV'T./CORP. BOND INDEX	16.1	12.8	9.6

*Capital appreciation plus reinvestment of dividends

**Average annual

DATA: MORNINGSTAR INC.

in assets. New investors missed the revival, too. Only 8% of the the \$78.4 billion invested in bond funds last year went to high-yield funds.

The junk-bond funds and the convertible bond funds, up 27%, drew their strength less from falling rates than from the buoyant stock market. Rising stock prices allowed junk-bond issuers to sell stock, improving the capitalization of the companies and bolstering their creditworthiness. Converts—bonds convertible into common stock—rose as prices for the underlying stocks soared. Junk and convertible funds can prosper as long as the stock market does, though a repeat of 1991's results doesn't seem likely.

But bond funds looked smart in 1991 even without the help of the stock market. Taxable funds, excluding high-yields and convertibles, racked up total returns of 14.4%. Because of the recession, the fixed-income market experienced a "flight to quality," and higher-quality corporate and Treasury bond funds fared best. Mortgage funds—those that invest in U.S. government-backed mortgage securities—fell behind in total returns even though the interest rates of those securities are, on average, about one percentage point higher than Treasuries of comparable maturities.

"That's about what you would expect when interest rates are falling," says Randall Merk, portfolio manager of the Benham GNMA Income Fund, one of six mortgage funds earning BW's highest rating, three up-arrows. Merk says the price performance of mortgage-backed securities is now sluggish because of a wave of refinancings. Once that passes—which he thinks will happen in the second quarter—the performance of mortgage funds should pick up. While over the longer haul mortgage funds have trailed long-term Treasuries, they are

MASTERS OF THE BOND-FUND UNIVERSE



These 36 funds have earned three upward-pointing arrows, the highest award for risk-adjusted performance over the past three years

Fund	Average annual total return*	Type of fund
AARP GNMA & U. S. TREASURY	11.9%	Government—general
BENHAM GNMA INCOME	13.2	Government—mortgage
BERNSTEIN SHORT DURATION PLUS	10.1	Corporate—general
CALVERT T/F RESERVES LIMITED-TERM	6.7	Municipal—general
DREYFUS SHORT-INTERMEDIATE GOVERNMENT	11.7	Government—general
DREYFUS SHORT-INTERMEDIATE T/E BOND	7.1	Municipal—general
DUPREE KENTUCKY TAX-FREE INCOME	9.7	Municipal—general
FIDELITY AGGRESSIVE TAX-FREE	9.6	Municipal—high-yield
FIDELITY GINNIE MAE	12.6	Government—mortgage
FIDELITY GOVERNMENT SECURITIES	12.7	Government—general
FIDELITY LIMITED-TERM MUNICIPAL	8.6	Municipal—general
FIDELITY MASSACHUSETTS TAX-FREE HIGH-YIELD	9.3	Municipal—high-yield
FIDELITY MORTGAGE SECURITIES	12.5	Government—mortgage
FIDELITY SPARTAN LIMITED MATURITY	10.5	Government—general
FIDELITY SPARTAN SHORT-INTERM. MUNICIPAL	7.2	Municipal—general
IAI RESERVE	8.4	Corporate—high-quality
MERRILL LYNCH MUNICIPAL LIMITED MATURITY	6.9	Municipal—general
NEUBERGER/BERMAN LIMITED MATURITY BOND	10.6	Corporate—high-quality
NEUBERGER/BERMAN ULTRA-SHORT BOND	8.4	Corporate—high-quality
T. ROWE PRICE GNMA	13.0	Government—mortgage
T. ROWE PRICE TAX-FREE HIGH-YIELD	9.8	Municipal—high-yield
ROCHESTER FUND MUNICIPALS	9.6	Municipal—general
SCUDDER GNMA	12.6	Government—mortgage
SCUDDER MEDIUM-TERM TAX-FREE	8.1	Municipal—general
SCUDDER SHORT-TERM BOND	12.5	Corporate—high-quality
SIT "NEW BEGINNING" TAX-FREE INCOME	8.3	Municipal—general
STEINROE HIGH-YIELD MUNICIPALS	9.6	Municipal—high-yield
UNITED MUNICIPAL HIGH-INCOME	9.9	Municipal—high-yield
USAA TAX-EXEMPT SHORT-TERM	7.0	Municipal—general
VALUE LINE U.S. GOVERNMENT SECURITIES	12.9	Government—general
VANGUARD FIXED-INCOME GNMA	13.9	Government—mortgage
VANGUARD FIXED-INCOME SHORT-TERM CORPORATE	11.3	Corporate—high-quality
VANGUARD FIXED-INCOME SHORT-TERM FEDERAL	11.0	Government—general
VANGUARD MUNICIPAL LIMITED-TERM	8.2	Municipal—general
VANGUARD MUNICIPAL SHORT-TERM	7.0	Municipal—general
WPG GOVERNMENT SECURITIES	12.3	Government—general

*1989-91

DATA: MORNINGSTAR INC

less volatile, too, since they carry average maturities of 7 to 10 years.

In fact, most government-bond funds—except those that specify they only invest in Treasuries—use mortgage-backed securities to enhance their returns. "We've sold virtually all our Treasuries," says Curt Hollingsworth, portfolio manager of the \$2 billion top-performing Fidelity Spartan Limited Maturity Government Fund. "Now, we're all in Ginnie Maes because they offer the best value."

International bond funds haven't fared well in BW's ratings. While most concentrate their portfolios on shorter maturities to reduce interest-rate risk, they also face currency risk. This makes them volatile and hurts their ratings. For those who can take volatility, returns have been good. In 1990, international funds had a return of 14.4%, by far the best group performance that year. Although laggards in 1991, they still delivered 11%.

OFF THE MAP. One sort of long-term investment that has fared well in recent years is "high-yield" municipal funds. True, high-yield munis have longer maturities than their corporate cousins, but their credit quality is far better. They are not junk funds.

Take the T. Rowe Price Tax-Free High-Yield Fund, with a three-year average annual return of 9.8%. It's really an investment-grade fund. Portfolio manager William Reynolds says the fund picks up higher returns by researching obscure corners of the muni market. "You have 60,000 to 80,000 issuers, and most are too small and sell bonds too infrequently to get ratings," he says. "That doesn't mean they're bad credits. Such bonds sport higher yields than those of better-known issuers."

Beyond maturities and credits, the critical factor in bond-fund returns are expenses. With the battle for yield

so intense, every basis point—one one-hundredth of a percent—counts. Vanguard's funds do well, in part, because they're low-overhead, taking a mere 0.2 percent of assets annually. The average bond fund in the BW Mutual Fund Scoreboard spends 0.97 percent, or 97¢ for every \$100. That may not sound like a lot, but every penny that isn't spent on expenses goes right to your pocket. Keep that in mind as you review the Scoreboard, which starts on page 93.

By Jeffrey M. Laderman in New York

MUTUAL FUND SCOREBOARD

HOW TO USE THE TABLES

BUSINESS WEEK RATING

Business Week ratings measure risk-adjusted performance. This shows how well a fund performed relative to other funds and relative to the level of risk it took. Risk-adjusted performance is determined by subtracting a fund's risk-of-loss factor (see below) from its historical return. Performance calculations are based on a three-year time period between Jan. 1, 1989, and Dec. 31, 1991. For rating purposes, funds are divided into two groups: municipal bond funds and other funds. Ratings are based on a normal statistical distribution within each group and awarded as follows:

- Superior performance
- Very good performance
- Above-average performance
- Average performance
- Below-average performance
- Poor performance
- Very poor performance

Risk-of-loss factor is the potential for losing money in a fund, calculated as follows: The monthly Treasury bill return is subtracted from the fund's total return for each of the 36 months in the rating period. When a fund has not performed as well as

Treasury bills, the result is negative. The sum of these negative numbers is then divided by the number of months in the period. The result is a negative number, and the greater its magnitude, the higher a shareholder's risk of loss.

PERFORMANCE COMPARISON

The tables provide performance data over three time periods. Here are equivalent total return figures for the Lehman Brothers Government/Corporate Bond Index during those periods:

1991	16.1%
Three-year average (1989-91)	12.8%
Five-year average (1987-91)	9.6%

FUND CATEGORIES

The tables group funds in one of six categories, based on assets: Corporate, Government, Municipal, International, and Convertible.

SALES CHARGE

The cost of buying a fund, commonly called the "load." Most funds take loads out of initial investments, and for BW rating purposes performance is reduced by the amount of these charges. Loads on withdrawals can take two forms. Deferred charges decrease over time usually ending after shares have been owned five years. Redemption fees are imposed whenever investors sell their shares. Funds with none of these charges are called "no-load."

EXPENSE RATIO

Fund expenses for 1991 as a percentage of aver-

age net assets. The measures show how much shareholders pay for fund management. Footnotes indicate 12(b)-1 plans, which allocate shareholder money for distribution costs.

TOTAL RETURN

A fund's net gain to investors, including reinvestment of dividends and capital gains at month-end prices.

YIELD

The income a fund earned on its portfolio investments during 1991, expressed as a percentage of the fund's yearend net asset value per share.

MATURITY

The average maturity of the securities in a fund's portfolio, weighted according to the market value of those securities.

TREND

A fund's relative performance during the three 12-month periods from Jan. 1, 1989, to Dec. 31, 1991. The boxes read from left to right, and the level of green in each box tells how the fund performed relative to other funds during the period:  for the top quartile;  for the second quartile;  for the third quartile; and  for the bottom quartile. An empty box indicates that a fund is not rated for that time period.

TELEPHONE NUMBERS

The index on page 104 has telephone numbers for each fund or fund group.

	RATING	SIZE		FEES		PERFORMANCE			PORTFOLIO		TREND
		ASSETS \$ MIL.	% CHG. 1990-91	SALES CHARGE (%)	EXPENSE RATIO (%)	TOTAL RET. (%)			YIELD	MATURITY (YEARS)	3-YEAR ANALYSIS
						1 YR.	3 YRS.	5 YRS.			
CORPORATE											
ALL INCOME	AVG	195.2	58	4.75	1.00†	15.7	12.2		7.2	14.0	
ARP HIGH-QUALITY BOND		234.9	48	No load	1.17	15.4	11.7	8.9	6.6	20.2	
LIANCE BOND HIGH-YIELD		104.0	12	4.75	1.60†	33.0	-0.6	1.3	11.6	8.5	
LIANCE BOND MONTHLY INCOME		64.6	-8	4.75	1.44†	18.1	12.1	9.5	8.9	14.9	
AMERICAN CAPITAL CORPORATE BOND		189.4	0	4.75	1.00†	16.7	9.1	9.3	8.2	17.3	
AMERICAN CAPITAL HIGH-YIELD INVSTMTS.		361.8	40	4.75	1.06†	41.3	1.5	4.1	13.1	8.4	
AMERICAN HIGH-INCOME		284.7	94	4.75	1.00†	32.4	11.8		10.3	5.9	
ARCH DIVERSIFIED F/I INVESTOR SHARES	AVG	101.5	814	4.50	0.62	15.3	10.9		7.2	10.8	
ARLSON BOND L		114.8	26	No load	0.97	15.0	12.1	9.5	8.0	11.8	
BARTLETT CAPITAL FIXED-INCOME		163.5	1	No load	1.00	14.4	11.1	8.7	6.9	5.1	
BENSTEIN GOVERNMENT SHORT DURATION		225.8	38	No load	0.70	11.2			6.1	4.3	
BENSTEIN INTERMEDIATE DURATION		418.4	56	No load	0.68	17.1			7.2	13.0	
BENSTEIN SHORT DURATION PLUS		451.9	17	No load	0.67	12.4	10.1		6.9	4.5	
BOND FUND OF AMERICA	AVG	2858.5	47	4.75	0.76†	21.0	11.2	9.4	8.6	8.8	
BOSTON COMPANY MANAGED INCOME	AVG	83.6	11	No load	1.19†	16.9	8.9	8.5	7.6	11.8	
NA HIGH-YIELD		259.7	27	5.00	1.21†	42.2	9.4	9.4	11.8	7.9	
NA INCOME		231.8	7	5.00	1.00†	18.0	11.6	8.8	7.6	14.7	
BANK IRA CIT INCOME		65.4	13	No load	1.08	13.8	11.6	8.6		4.7	
CONIAL HIGH-YIELD SECURITIES		299.3	28	4.75	1.36†	43.9	7.0	7.6	12.2	7.9	
CONIAL INCOME		146.9	4	4.75	1.24†	19.0	9.5	8.2	9.0	17.9	
CUMBIYA FIXED-INCOME SECURITIES		207.3	55	No load	0.68	16.8	13.1	9.6	7.3	7.8	
MPASS CAPITAL FIXED-INCOME		147.3	45	No load	0.86	15.8			7.0	14.7	
MPASS CAPITAL SHORT/INTERMEDIATE		123.6	95	No load	0.85	12.4			6.6	4.1	

*Includes redemption fee. **Includes deferred sales charge. †12(b)-1 plan in effect. ‡Not currently accepting new accounts or deposits. §New fund, less than 12 months' total return. NA = Not available. NM = Not meaningful.

DATA: MORNINGSTAR INC.

MUTUAL FUND SCOREBOARD

	RATING	SIZE		FEES		PERFORMANCE			PORTFOLIO		TREND
		ASSETS \$ MIL.	% CHG 1990-91	SALES CHARGE (%)	EXPENSE RATIO (%)	TOTAL RET. (%)			YIELD	MATURITY (YEARS)	
						1 YR	3 YRS	5 YRS			3-YEAR ANALYSIS
COMPOSITE INCOME	AVG	77.3	14	4.00	1.09†	17.4	10.7	9.0	7.6	6.6	
DEAN WITTER HIGH-YIELD SECURITIES		425.0	36	5.50	0.92	67.2	-4.8	-1.1	11.1	10.6	
DEAN WITTER INTERMED. INCOME SECURITIES		120.0	10	5.00**	1.69†	16.3			7.5	5.0	
DELAWARE GROUP DELCHESTER H/Y BOND I		535.9	33	6.75	0.90	43.9	8.6	8.7	12.5	8.2	
DELAWARE GROUP DELCHESTER H/Y BOND II		130.5	68	4.75	1.20†	43.5	8.2		12.2	8.2	
DODGE & COX INCOME		96.2	85	No load	0.69	18.0			7.2	12.5	
DREYFUS A BONDS PLUS	AVG	466.3	39	No load	0.85	18.8	12.4	9.1	7.5	19.5	
DREYFUS STRATEGIC INCOME	AVG	64.7	48	4.50	0.87†	19.1	12.7	10.9	8.3	15.7	
EATON VANCE HIGH-INCOME		221.6	40	6.00**	2.37†	38.3	4.5	6.2	14.1	7.1	
EATON VANCE INCOME FUND OF BOSTON		72.0	29	4.75	1.15†	42.8	7.9	8.4	13.7	6.9	
FIDELITY CAPITAL & INCOME		1155.5	42	1.50*	0.80	29.8	6.5	6.6	10.1	7.2	
FIDELITY FLEXIBLE BOND		653.7	59	No load	0.68	18.9	12.5	9.0	8.2	12.6	
FIDELITY INTERMEDIATE BOND		1172.1	45	No load	0.65	14.5	11.2	8.5	7.2	9.4	
FIDELITY SHORT-TERM BOND		568.8	154	No load	0.85	14.0	10.1	7.9	8.5	2.9	
FIDELITY SPARTAN HIGH-INCOME		201.8		1.00*	0.70	34.3			11.5	7.9	
FINANCIAL BOND HIGH-YIELD		99.1	145	No load	0.94†	23.4	6.9	7.5	10.2	8.4	
FINANCIAL BOND SELECT INCOME		93.8	102	No load	1.01†	18.6	10.4	7.9	8.1	11.2	
FIRST INVESTORS FUND FOR INCOME		429.3	-19	6.90‡	1.24†	41.6	2.6	4.0	10.9	7.7	
FIRST INVESTORS HIGH-YIELD		210.6	-31	6.90‡	1.69†	34.4	0.6	2.4	10.6	7.3	
FLAG INVESTORS INTERMEDIATE-TERM		64.3		1.50	0.70†	10.4§				9.6	
FRANKLIN AGE HIGH-INCOME		1753.0	40	4.00	0.59	47.8	6.5	6.7	13.0	9.7	
FUNDTRUST INCOME		68.9	84	1.50	1.57†	14.8	9.0	7.1	6.3		
GALAXY INTERMEDIATE BOND	AVG	101.8	24	No load	0.97	15.8	11.0		6.9	7.1	
GW CORPORATE INCOME		88.3	399	4.50	1.21†	21.1			8.7	18.8	
JOHN HANCOCK BOND		1250.0	13	4.50	1.28†	16.6	11.7	9.3	8.4	17.9	
JOHN HANCOCK STRATEGIC INCOME (a)		114.5	70	4.50	1.75†	33.6	5.9	7.2	11.4	8.3	
HELMSMAN INCOME		344.0	118	No load	0.29†	16.0	11.5		6.8	8.4	
HELMSMAN LIMITED VOLATILITY BOND		259.2	159	No load	0.32†	13.4			6.6	3.6	
IAI BOND	AVG	114.0	12	No load	1.10†	17.3	13.3	9.6	6.8	15.0	
IAI RESERVE		98.2	9	No load	0.85†	8.0	8.4	7.5	5.8	0.8	
IDS BOND	AVG	2036.2	16	5.00	0.77†	20.7	11.8	8.9	8.0	19.1	
IDS EXTRA INCOME		1058.6	34	5.00	0.88†	38.5	6.0	6.3	10.8	8.9	
IDS SELECTIVE	AVG	1455.0	19	5.00	0.76†	17.0	11.9	9.2	7.4	12.5	
IDS STRATEGY INCOME		332.6	34	5.00**	1.68†	16.8	10.5	8.1	7.7	14.5	
IDS STRATEGY SHORT-TERM INCOME		147.9	3	5.00**	1.71†	8.6			6.3	3.3	
INTERMEDIATE BOND FUND OF AMERICA	AVG	625.5	190	4.75	1.00†	14.4	10.8		8.2	5.8	
INVESTMENT TRUST BOSTON PREM. INCOME		272.0	443	2.50	1.25†	13.4			7.6	7.5	
JANUS FLEXIBLE INCOME		71.4	434	No load	1.00	26.7	8.3		10.1	15.7	
KEMPER HIGH-YIELD		1658.3	50	4.50	0.85	46.8	8.1	9.5	13.1	8.0	
KEMPER INCOME & CAPITAL PRESERVATION	AVG	461.5	14	4.50	0.82	17.9	10.9	9.2	8.7	12.0	
KEMPER INVESTMENT PORT. HIGH-YIELD (b)		796.1	49	3.00**	2.12†	45.8	5.8	7.1	12.4	8.0	
KEYSTONE CUSTODIAN B-1	AVG	482.8	4	4.00**	2.04†	14.9	11.1	7.3	7.6	13.9	
KEYSTONE CUSTODIAN B-2		839.0	5	4.00**	1.94†	18.7	6.9	6.3	9.4	15.7	
KEYSTONE CUSTODIAN B-4		752.0	41	4.00**	2.34†	41.8	1.6	2.4	13.9	8.3	
LIBERTY HIGH-INCOME BOND		307.3	48	4.50	1.03	60.5	11.7	9.9	11.8	8.4	
MACKENZIE FIXED-INCOME		100.9	22	4.75	1.50†	14.4	11.2	11.0	6.0	12.0	
MAINSTAY HIGH-YIELD CORPORATE BOND		296.4	60	5.00**	2.10†	32.3	5.0	6.3	13.0	7.4	
MASS. FINANCIAL BOND	AVG	499.5	63	4.75	0.79†	18.1	12.7	9.0	8.8	8.2	
MASS. FINANCIAL HIGH-INCOME I		531.5	42	4.75	1.14†	49.0	6.5	6.2	12.6	10.3	
MERRILL LYNCH HIGH-INCOME A		543.0	27	4.00	0.66	40.1	11.7	10.5	12.7	10.5	
MERRILL LYNCH HIGH-QUALITY A		340.2	9	4.00	0.61	17.2	12.5	9.2	7.7	10.8	
MERRILL LYNCH INTERMEDIATE-TERM		114.8	27	2.00	0.67	15.6	12.1	8.8	7.9	6.3	
METLIFE-STATE STREET HIGH-INCOME		253.3	54	4.50	1.19†	36.4	5.0	7.1	11.9	7.6	
MID INCOME & OPPORTUNITY		75.9	1	4.75	1.70†	24.9	9.4		9.4	12.4	
MID LIFETIME HIGH-INCOME		186.8	80	6.00**	2.56†	50.0	6.9	6.0	11.7	8.5	
MONTGOMERY SHORT-INTERM. F/I TRUST SHARE		101.9	-2	No load	0.77	13.6			7.8	3.3	
MONTGOMERY BOND		394.6	38	4.75	1.16	50.4	3.8	2.6	15.5	8.9	
MUTUAL FUND: MULTI-SECTOR FIXED-INCOME		89.4	636	4.75	1.50†	28.3			9.4	11.0	
NEWPORT BERMAN LTD. MATURITY BOND		174.4	50	No load	0.65	11.9	10.6	8.5	6.8	3.5	
NEWPORT BERMAN ULTRA-SHORT BOND (c)		94.2	11	No load	0.65	7.5	8.4	7.8	6.8	0.7	

MUTUAL FUND SCOREBOARD

FUND	RATING	SIZE		FEES		PERFORMANCE			PORTFOLIO		TREND
		ASSETS \$ MIL	% CHG 1990-91	SALES CHARGE (%)	EXPENSE RATIO (%)	TOTAL RET. (%)			YIELD	MATURITY (YEARS)	
						1 YR	3 YRS	5 YRS			
W ENGLAND BOND INCOME	▲	113.8	33	4.50	1.20↑	18.1	12.4	9.5	7.4	10.9	
CHOLAS INCOME	▲	79.9	32	No load	0.78	23.1	8.2	7.7	10.4	6.2	
ORTHEAST INVESTORS	▲	304.6	25	No load	1.89	26.4	4.7	5.6	14.7	7.8	
PENHEIMER HIGH-YIELD	▲	731.4	34	4.75	0.96↑	28.6	8.9	9.2	14.4	4.8	
PENHEIMER INVESTMENT GRADE BOND	AVG	90.6	4	4.75	1.25↑	18.3	11.3		7.3	9.9	
PENHEIMER STRATEGIC INCOME	▲	763.4	250	4.75	1.40↑	20.1			11.0	5.0	
CIFICA ASSET PRESERVATION	▲	82.3	116	No load	0.62↑	9.1			6.6	1.0	
INEWEBBER HIGH-INCOME A (d)	▲	239.2	30	4.00	1.04↑	47.0	9.9	7.1	14.1	10.7	
INEWEBBER INCOME B (e)	▲	151.7	2	5.00**	2.02↑	22.6	10.8	7.4	6.9		
INEWEBBER INVESTMENT GRADE INC. A (f)	▲	224.7	0	4.00	0.82↑	18.6	12.4	8.5	7.9	17.1	
ARKSTONE BOND	AVG	518.6	41	4.00	0.84	15.1	11.7		7.0	10.5	
ARKSTONE LIMITED MATURITY BOND	AVG	98.5	64	3.00	0.91	12.3	9.9		6.9	3.6	
OENIX HIGH-YIELD	▲	95.6	23	4.75	1.08↑	24.7	6.9	7.1	9.7	10.2	
ONEER BOND	AVG	89.0	22	4.50	1.02↑	15.5	11.4	8.9	8.1	7.9	
ORTICO BOND IMMDEX	▲	100.7	63	No load	0.50	16.6			6.9	10.3	
ORTICO SHORT-INTERM. FIXED-INCOME	▲	69.8	191	No load	0.60	13.5			6.7	2.8	
OWE PRICE HIGH-YIELD	▲	968.7	103	No load	1.01	30.9	4.7	6.9	11.3	8.8	
OWE PRICE NEW INCOME	▲ ▲	1400.7	28	No load	0.89	15.5	12.1	9.1	7.4	8.3	
OWE PRICE SHORT-TERM BOND	▲ ▲	401.4	86	No load	0.94	11.2	9.9	8.1	6.9	2.9	
OWE PRICE SPECTRUM INCOME FUND	▲	147.9	269	No load	0.00	19.6			7.7	6.7	
UDENTIAL HIGH-YIELD B (g)	▲ ▼	2202.7	35	5.00**	1.58↑	33.5	6.0	6.1	12.4	10.1	
UDENTIAL STRATEGIC INCOME A (h)	▲	255.8	-30	4.50	2.52↑	15.8			8.6	15.5	
UDENTIAL STRUCTURED MATURITY A (i)	▲	110.0	-3	3.25	0.23↑	13.1			7.4	2.8	
TNAM DIVERSIFIED INCOME	AVG	185.3	35	4.75	1.47↑	23.6	10.9		8.7	8.7	
TNAM HIGH-YIELD	▲	1927.2	35	6.75	1.09↑	39.3	8.3	8.7	13.5	8.5	
TNAM HIGH-YIELD II	▲	351.6	42	6.75	1.37↑	45.7	8.6	9.4	13.2	9.0	
TNAM INCOME	AVG	526.4	18	4.75	0.91↑	18.3	11.5	9.3	9.1	18.4	
UDDER INCOME	▲ ▲	404.1	34	No load	1.00	17.3	12.7	9.5	6.7	9.0	
UDDER SHORT-TERM BOND	▲ ▲ ▲	2234.8	566	No load	0.25	14.3	12.5	8.9	8.8	2.7	
URITY INCOME CORPORATE BOND	AVG	85.8	30	4.75	1.08↑	16.1	10.8	8.5	8.4	23.1	
EARSON DIVERSIFIED STRATEGIC INCOME	▲	889.6	253	5.00**	1.63↑	19.1			9.3	16.6	
EARSON HIGH-INCOME	▲	249.7	22	5.00**	1.75↑	34.8	3.7	6.1	11.8	8.2	
EARSON HIGH-YIELD	▲	210.1	12	5.00	0.93	33.4	3.9	5.7	12.4	8.2	
EARSON INVESTMENT GRADE BOND	AVG	412.8	2	5.00**	1.52↑	22.7	13.5	9.0	7.5	26.7	
INROE INCOME	AVG	105.9	19	No load	0.95	17.2	10.0	9.1	8.1	11.0	
INROE INTERMEDIATE BOND	▲	220.8	31	No load	0.73	15.1	11.6	8.8	7.6	5.0	
ONG ADVANTAGE	▲ ▲	143.2	20	No load	1.20	10.6	8.9		7.7	1.3	
ONG INCOME	▲	92.4	0	No load	1.50	14.8	2.6	4.9	8.1	8.7	
ONG SHORT-TERM BOND	▲	165.0	106	No load	1.30	14.6	9.5		7.4	2.9	
OMSON INCOME B	▲	258.4	-22	1.00*	1.90↑	11.8	6.4	6.7	9.3	13.1	
ANSAMERICA INVESTMENT QUALITY BOND	AVG	98.2	18	4.75	1.25↑	18.0	12.4	8.9	8.9	13.0	
ANSAMERICA SPECIAL HIGH-YIELD BOND	▲	74.0	89	6.00**	2.24↑	33.8	5.5		15.1	6.5	
INITY SHORT-TERM BOND	▲	76.1	205	No load	0.29↑	9.1			6.1	1.5	
ENTIETH CENTURY LONG-TERM BOND	AVG	121.7	44	No load	1.00	17.5	12.4		7.3	9.0	
IMITED BOND	▲	524.2	20	8.50	0.66	18.8	11.1	9.3	7.4	21.3	
IMITED HIGH-INCOME	▲	858.2	28	8.50	0.82	37.4	2.5	3.9	11.8	9.0	
IMITED HIGH-INCOME II	▲	299.8	27	8.50	0.92	31.3	6.4	6.9	11.4	9.3	
T MASTER MANAGED INCOME	AVG	92.8	112	4.50	1.11	16.9	13.7	11.4	6.8	15.1	
N KAMPEN HIGH-YIELD	▲	205.3	17	4.90	1.41↑	35.1	3.1	5.9	12.5	10.5	
NGUARD BOND MARKET	▲ ▲	848.9	207	No load	0.21	15.3	12.5	9.2	7.7	9.2	
NGUARD FIXED-INC. HIGH-YIELD CORP. (j)	▲	1452.4	109	No load	0.36	29.1	7.4	7.6	11.0	9.3	
NGUARD FIXED-INC. INVSTMT. GRADE (k)	▲	2005.6	68	No load	0.33	20.9	13.9	10.2	8.0	20.2	
NGUARD FIXED-INC. SHORT-TERM CORP. (l)	▲ ▲ ▲	1866.4	134	No load	0.27	13.1	11.3	9.0	7.5	2.2	
ESTCORE INTERMEDIATE-TERM BOND	AVG	78.9	13	4.50	0.58	20.2	10.8		8.7	5.0	
LLIAM BLAIR INCOME SHARES	▲	83.0	177	No load	0.83	16.5			9.4	6.1	

GOVERNMENT

RP GNMA & U.S. TREASURY	▲	3736.0	40	No load	0.74	14.4	11.9	9.0	7.8	4.5	
ADVANTAGE GOVERNMENT SECURITIES	▲	121.1	12	4.00**	1.45†	14.8	11.7	6.5	7.5	9.8	
M LIMITED MATURITY TREASURY SHARES	▲	155.3	70	1.75	0.54†	10.4	9.7		6.7	1.5	

Formerly PaineWebber High-Yield Bond Portfolio. (e) Formerly PaineWebber Master Income Fund. (f) Formerly PaineWebber Investment Grade Bond Port. (g) Formerly Prudential-Bache High-Yield Class B. (h) Formerly Prudential-Bache Strategic Income A. (i) Formerly Prudential-Bache Structured Maturity A. (j) Formerly Vanguard F/I Secs. High-Yield Bond. (k) Formerly Vanguard F/I Secs Investment Grade Bond. (l) Formerly Vanguard F/I Secs. Short-Term Bond.

See pages 93 for an explanation of BW Rating, Trend, and other terms

DATA: MORNINGSTAR INC

MUTUAL FUND SCOREBOARD

	RATING	SIZE		FEES		PERFORMANCE			PORTFOLIO		TREND
		ASSETS \$ MIL	% CHG 1990-91	SALES CHARGE (%)	EXPENSE RATIO (%)	TOTAL RET. (%)			YIELD	MATURITY (YEARS)	
						1 YR	3 YRS.	5 YRS			3-YEAR ANALYSIS
ALLIANCE BOND U.S. GOVERNMENT A	AVG	510.4	1	4.75	1.07†	15.7	12.0	9.2	9.0	9.2	
ALLIANCE MORTGAGE SECURITIES INCOME A	▲	541.5	9	4.75	1.16†	15.4	12.5	9.8	9.4	5.0	
AMERICAN CAPITAL FEDERAL MORTGAGE A	AVG	195.2	507	4.00	1.38†	9.8	11.0	7.3	8.2	2.3	
AMERICAN CAPITAL GOVERNMENT A	AVG	3871.1	0	4.75	0.93†	16.3	13.2	8.9	8.2	7.5	
AMEV U.S. GOVERNMENT SECURITIES	▲	452.2	117	4.50	0.74	13.9	12.3	9.5	8.7	6.4	
ATLAS U.S. GOVERNMENT & MORTGAGE		114.1	1485	3.00	0.00†	15.5			8.6	NA	
BENHAM ADJUSTABLE RATE GOVERNMENT		443.9	NA	No load	NA	2.5§				3.0	
BENHAM GNMA INCOME	▲ ▲ ▲	702.8	99	No load	0.64	15.5	13.2	10.1	7.9	10.0	
BENHAM TARGET MATURITIES 2005	▼	189.9	152	No load	0.70	16.9	14.2	13.7	NA	13.5	
BENHAM TARGET MATURITIES 2015	▼ ▼	212.0	-36	No load	0.61	16.4	15.7	7.4	NA	23.4	
BENHAM TREASURY NOTE	▲ ▲	301.7	133	No load	0.61	13.8	11.6	7.7	6.6	4.2	
BLACKSTONE GOVERNMENT INCOME A		136.7	NA	3.00	NA†	3.9§				2.0	
CARDINAL GOVERNMENT OBLIGATIONS (m)	▲ ▲	136.8	18	4.50	0.76	13.0	11.9	9.3	9.0	14.5	
CIGNA GOVERNMENT SECURITIES	▲	101.4	65	5.00	1.00†	13.0	11.2		8.1	NA	
COLONIAL GOVERNMENT SECURITIES PLUS	AVG	2042.1	-8	4.75	1.16†	15.2	11.7	8.7	7.4	14.3	
COLONIAL U.S. GOVERNMENT	▲	684.2	450	4.75	1.25†	11.1	10.4		9.6	4.1	
COLONIAL VIP FEDERAL SECURITIES	AVG	130.8	195	5.00**	2.25†	9.9	9.8		8.3	4.2	
COMMON SENSE GOVERNMENT	AVG	198.0	35	6.75	1.09	15.6	12.4		7.6	NA	
COMPOSITE U.S. GOVERNMENT SECURITIES	▲	132.4	50	4.00	1.01†	14.8	12.5	9.2	7.5	7.4	
COMSTOCK PARTNERS STRATEGY	AVG	923.2	-23	4.50	0.93	12.7	12.8		7.4	NA	
DEAN WITTER GOVERNMENT SECURITIES PLUS	AVG	1300.0	-6	5.00**	1.50†	14.0	11.8		7.2	13.4	
DEAN WITTER U.S. GOVERNMENT SECURITIES	AVG	11000.0	12	5.00**	1.23†	11.2	10.2	8.1	8.9	5.0	
DELAWARE GROUP GOVERNMENT INCOME II	AVG	164.3	5	4.75	1.13†	15.2	11.8	9.1	8.4	8.2	
DELAWARE GROUP TREASURY RESERVE INV. I	▲ ▲ ▲	144.2	1027	3.00	0.76	13.2	10.6		8.0	3.9	
DREYFUS 100% U.S. INTERMEDIATE (n)	▲ ▲	183.2	157	No load	0.93	15.2	12.3		8.1	6.9	
DREYFUS 100% U.S. LONG-TERM (o)	AVG	217.4	408	No load	0.02	18.3	13.7		7.9	16.9	
DREYFUS GNMA	▲ ▲	1823.8	18	No load	0.95†	14.5	11.9	8.9	8.1	NA	
DREYFUS SHORT-INTERMEDIATE GOVT.	▲ ▲ ▲	137.0	85	No load	0.58	13.5	11.7		7.1	3.1	
EATON VANCE GOVERNMENT OBLIGATIONS	▲	352.3	26	4.75	2.11†	14.4	12.2	9.6	9.4	17.1	
FIDELITY GINNIE MAE	▲ ▲ ▲	891.1	24	No load	0.83	13.6	12.6	9.1	7.5	7.9	
FIDELITY GOVERNMENT SECURITIES	▲ ▲ ▲	523.3	13	No load	0.69	16.0	12.7	9.0	7.8	14.1	
FIDELITY MORTGAGE SECURITIES	▲ ▲ ▲	436.3	12	No load	0.82	13.6	12.5	9.3	7.6	7.2	
FIDELITY SPARTAN GINNIE MAE		702.0	NA	No load	0.25	13.9			8.1	8.0	
FIDELITY SPARTAN GOVERNMENT INCOME		522.4	22	No load	0.65	15.1			7.4	11.8	
FIDELITY SPARTAN LTD. MATURITY GOVT.	▲ ▲ ▲	2085.2	1190	No load	0.80	11.9	10.5		8.0	5.8	
FIRST INVESTORS GOVERNMENT	AVG	316.0	6	6.90	1.36†	15.1	12.2	8.9	6.3	5.8	
FIRST TRUST U.S. GOVERNMENT	▲ ▲	160.8	-18	4.50	0.98†	15.6	13.2	9.9	7.7	6.0	
FLAG INVESTORS TOTAL RET. U.S. TREASURY	▼	246.5	18	4.50	0.87†	16.6	12.0		8.4	17.0	
FORTRESS ADJUSTABLE RATE U.S. GOVT.		626.5	NA	1.75*	NA†	3.4§				4.8	
FRANKLIN ADJUSTABLE U.S. GOVT.	▲ ▲	3669.8	266	4.00	0.47†	8.6	9.5		8.0	5.0	
FRANKLIN SHORT-INTERMEDIATE GOVT.	▲ ▲	145.8	223	1.50	0.72	11.9	10.3		7.5	2.1	
FRANKLIN TAX-ADVANTAGED U.S. GOVT.	▲ ▲	128.6	48	4.00	0.76	14.7	12.5		8.1	6.5	
FRANKLIN U.S. GOVERNMENT SECURITIES	▲ ▲ ▲	13028.3	14	4.00	0.52	13.5	12.2	9.4	8.9	5.0	
FREEDOM GOVERNMENT INCOME B	▲	175.6	29	4.00**	1.51†	14.4	12.4	9.1	7.7	8.3	
FUND FOR U.S. GOVERNMENT SECURITIES	▲ ▲	1337.4	23	4.50	0.91	13.4	12.2	9.8	8.5	5.7	
GNA INVESTORS U.S. GOVERNMENT SECS.	▲ ▲	284.9	266	5.00**	1.81†	13.8	12.0		7.7	4.7	
GOLDMAN SACHS ADJ. RATE GOVT. AGENCY		561.4	NA	No load	NA	3.5§				0.8	
GOLDMAN SACHS S/T GOVT. AGENCY (p)	▲ ▲	280.1	289	No load	0.45	9.9	9.9		8.2	1.8	
GOVERNMENT INCOME SECURITIES	▲ ▲	2134.8	63	1.75*	0.90	13.1	12.0	9.4	8.8	6.8	
GRADISON GOVERNMENT INCOME	▲	151.8	94	2.00	1.08†	14.1	11.8		6.9	6.4	
GW U.S. GOVERNMENT SECURITIES		326.5	244	4.50	1.12†	15.2			8.4	7.0	
JOHN HANCOCK GOVERNMENT SPECTRUM	▲	363.9	23	4.50	1.41†	16.5	12.9	9.4	7.3	9.6	
JOHN HANCOCK U.S. GOVERNMENT SECS.	AVG	211.3	20	4.50	1.49†	12.5	10.6	7.3	7.5	10.9	
LONG INVESTORS GOVERNMENT INCOME	▲	127.4	-3	5.00**	1.93†	14.4	12.1	9.0	7.0	NA	
MUTUAL FEDERAL INCOME	▲	552.6	91	5.00	0.80†	11.0	10.5	8.5	7.6	7.2	
ROYAL TOTAL RETURN U.S. TREASURY (q)		178.5	25	4.45	0.87†	16.6	12.3		8.4	17.0	
SCOTT INVESTMENT PORT. GOVERNMENT	AVG	5367.2	7	3.00**	2.03†	17.0	11.7	8.2	8.2	10.0	
SCOTT INVESTMENT PORT. SHORT-INT. GOVT. (r)		130.9	84	3.00**	2.07†	11.1			7.6	4.0	
SEAFARER U.S. GOVERNMENT SECURITIES	▲	5916.6	25	4.50	0.63	17.3	13.6	9.9	8.7	10.9	
SEAFARER AMERICA CAPITAL PRES. & INC. II		118.4	NA	2.50**	NA†	3.5§				4.0	

* Government Guaranteed Fund. (n) Formerly Dreyfus U.S. Government Interm. Secs. (o) Formerly Dreyfus U.S. Government Bond Fund. (p) Formerly GS Short-Intermediate Government Fund. (q) Formerly First U.S. Treasury. (r) Formerly Investment Port. Short-Int. Govt. Port.

See pages 93 for an explanation of BW Rating, Trend, and other terms

DATA: MORNINGSTAR INC.

MUTUAL FUND SCOREBOARD

	RATING	SIZE		FEES		PERFORMANCE			PORTFOLIO		TREND
		ASSETS \$ MIL.	% CHG. 1990-91	SALES CHARGE (%)	EXPENSE RATIO (%)	TOTAL RET. (%)			YIELD	MATURITY (YEARS)	
						1 YR.	3 YRS.	5 YRS.			3-YEAR ANALYSIS
ING MASON U.S. GOVT. INTERMEDIATE-TERM	★ ★	211.1	184	No load	0.80†	14.4	12.2		6.3	5.1	
INGTON GNMA INCOME	★ ★	122.2	25	No load	1.06	15.8	13.5	9.7	7.6	5.2	
ERTY ADVANTAGE U.S. GOVERNMENT	★ ★	622.8	84	4.50	0.89†	14.3	12.0		8.4	6.9	
RD ABBETT U.S. GOVERNMENT SECURITIES	AVG	2440.8	52	4.75	0.89†	17.6	13.1	9.8	9.6	10.7	
INSTAY GOVERNMENT PLUS	AVG	717.5	40	5.00**	1.80†	13.4	10.8	8.2	8.8	11.3	
RRILL LYNCH ADJUSTABLE RATE SECS. B		705.5	NA	3.00**	NA†	2.5§				1.0	
RRILL LYNCH FEDERAL SECURITIES A	★ ★	2228.3	-3	4.00	0.77†	13.4	12.5	9.5	7.7	7.3	
FLIFE-STATE STREET GOVT. INCOME	★	748.8	-16	No load	1.05†	16.1	12.5		7.5	15.1	
S GOVERNMENT INCOME PLUS	★	897.9	-15	4.75	1.46†	13.3	9.9	6.9	5.8	7.6	
S GOVERNMENT PREMIUM ACCOUNT		367.6	-14	3.75	1.35†	8.9	8.1		5.3	4.9	
S GOVERNMENT SECURITIES	AVG	357.6	9	4.75	1.28†	14.2	11.3	8.2	7.8	11.2	
S LIFETIME GOVERNMENT INCOME PLUS		2909.9	-8	6.00**	1.96†	11.8	9.3	5.9	5.5	6.3	
TIONAL FEDERAL SECURITIES		358.3	-5	4.75	0.92	19.7	12.2	6.8	7.7	7.7	
W ENGLAND GOVERNMENT SECURITIES	★	180.2	-1	4.50	1.22†	14.9	11.0	8.0	7.2	12.0	
PENHEIMER GNMA	★	100.2	35	4.75	1.34†	14.3	12.2	9.4	7.6	7.0	
PENHEIMER U.S. GOVERNMENT	AVG	399.9	35	4.75	1.19†	15.2	11.6	9.0	7.7	7.0	
ERLAND EXPRESS VARIABLE RATE GOVT.		566.8	8165	3.00	0.24†	8.6			8.2	4.0	
CIFICA GOVERNMENT INCOME (s)		97.0	83	4.50	0.54†	15.2			7.4	6.0	
NEWEBBER U.S. GOVERNMENT INCOME A	★	750.7	-5	4.00	0.77†	15.0	12.6	9.0	7.5	12.2	
RKSTONE INTERMEDIATE GOVT. OBLIG.	AVG	217.3	84	4.00	0.86	13.8	10.9		6.6	7.4	
MANANT PORTFOLIO TREASURY BILL	★	312.2	63	No load	0.70†	5.3	6.9		2.0	0.3	
GRIM ADJUSTABLE U.S. GOVT. SECS.		488.5	NA	4.00**	1.88†	7.7§				NA	
GRIM GNMA	AVG	107.2	-9	4.75	1.14†	11.9	10.9	8.1	8.5	NA	
MIER GNMA	★ ★	113.4	111	4.50	0.49†	15.4	12.7		7.8	9.7	
OWE PRICE ADJUSTABLE RATE U.S.		104.2	NA	No load	NA	1.1§				NA	
OWE PRICE GNMA	★ ★ ★	734.5	62	No load	0.87	15.0	13.0	9.0	8.0	9.2	
OWE PRICE U.S. TREASURY INTERM.		126.0	NA	No load	0.80	14.8			6.6	5.0	
NCOR GOVT. SECURITIES INCOME	★	106.1	38	5.00	0.98†	16.9	13.7	10.1	7.4	NA	
UDENTIAL GNMA B (t)	AVG	272.7	20	5.00**	1.77†	12.1	10.9	7.7	8.0	5.4	
UDENTIAL GOVERNMENT PLUS B (u)	AVG	2852.7	-12	5.00**	1.67†	14.4	11.1	8.4	6.2	6.9	
UDENTIAL GOVT. INTERMEDIATE-TERM (v)	★	299.1	-7	No load	0.78†	13.4	10.9	8.1	8.4	6.6	
UDENTIAL U.S. GOVERNMENT B (w)		161.6	-11	5.00**	2.10†	14.8	11.0	7.6	5.7	16.1	
TNAM ADJUSTABLE RATE U.S. GOVT. (x)	AVG	262.7	326	4.75	1.29†	7.0	8.5		9.0	5.0	
TNAM FEDERAL INCOME (y)	AVG	737.0	-9	4.75	1.17†	15.2	12.5	8.3	7.8	11.6	
TNAM HIGH-INCOME GOVERNMENT		4859.6	-16	6.75	0.97†	9.2	10.0	6.7	7.3	10.2	
TNAM U.S. GOVERNMENT INCOME	★	3069.7	75	4.75	0.91†	11.9	11.5	9.3	9.3	8.1	
EST FOR VALUE U.S. GOVT. INCOME	★	147.9	174	4.75	1.15†	12.7	11.5		6.8	8.8	
NIERI ADJUSTABLE RATE U.S. GOVT. I		291.4	NA	3.00	NA†	6.3§				1.3	
NIERI ADJUSTABLE RATE U.S. GOVT. II		131.6	NA	3.00**	NA†	5.6§				1.3	
ODDER GNMA	★ ★ ★	329.0	31	No load	1.01	15.0	12.6	9.1	7.8	11.3	
EARSON GOVERNMENT SECURITIES	AVG	1283.3	-15	5.00**	1.48†	16.2	12.6	7.4	7.3	NA	
EARSON MANAGED GOVERNMENTS	AVG	500.2	1	5.00	0.82	16.0	12.3	9.1	8.0	NA	
EARSON MORTGAGE	★	540.7	-8	5.00**	1.59†	17.0	12.3	8.3	7.3	NA	
WITH BARNEY U.S. GOVERNMENT SECURITIES	★	394.4	18	4.00	0.41	15.9	13.4	10.1	8.4	11.3	
NAMERICA U.S. GOVERNMENT SECS. (z)	★ ★	792.5	80	5.00**	1.98†	9.8	9.0	7.6	8.6	NA	
OMSON U.S. GOVERNMENT B	AVG	427.6	-4	1.00*	1.80†	15.6	11.4	7.9	7.8	6.8	
ANSAMERICA GOVERNMENT SECURITIES		770.8	-2	4.75	1.11†	16.7	11.9	8.7	9.4	14.3	
ANSAMERICA GOVT. INCOME	AVG	103.7	-19	2.50	1.13†	14.4	11.1	8.2	9.9	10.2	
ANSAMERICA SPECIAL GOVT. INCOME		156.3	105	6.00**	2.00†	14.1	10.5		8.6	12.7	
ENTIETH CENTURY U.S. GOVERNMENTS	★	557.4	19	No load	1.00	11.6	9.7	7.7	6.2	2.7	
. GOVERNMENT SECURITIES	★	1157.1	57	4.75	0.95†	14.2	11.9	8.6	8.4	8.8	
ITED GOVERNMENT SECURITIES	AVG	138.2	21	4.25	0.79	17.0	11.8	7.8	7.2	19.1	
IA INVESTMENT FED. SECS. GNMA		110.8	NA	No load	0.38	13.3§				9.4	
UE LINE U.S. GOVERNMENT	★ ★ ★	381.4	36	No load	0.64	16.4	12.9	9.9	7.4	NA	
N KAMPEN U.S. GOVERNMENT	★	3494.8	5	4.90	0.64†	15.8	13.1	9.5	8.7	6.4	
NGUARD FIXED-INCOME GNMA	★ ★ ★	5297.5	104	No load	0.30	16.8	13.9	10.4	8.0	10.0	
NGUARD FIXED-INCOME INTERM.-TERM		139.0	NA	No load	NA	4.8§				7.1	
NGUARD FIXED-INC. LONG-TERM U.S. (aa)	AVG	892.5	28	No load	0.28	17.5	13.6	9.2	7.3	21.0	
NGUARD FIXED-INC. SHORT-TERM FED. (bb)	★ ★ ★	1179.5	158	No load	0.28	12.3	11.0		7.0	2.2	
G GOVERNMENT SECURITIES	★ ★ ★	193.1	48	No load	0.76	14.0	12.3	9.4	7.4	6.0	

Formerly Pacifica Income Fund. (t) Formerly Prudential-Bache GNMA Fund Class B. (u) Formerly Prudential-Bache Govt Plus Fund Class B. (v) Formerly Pru-Bache Govt Secs Intern-Term Class B. (w) Formerly Prudential U.S. Government B. (x) Formerly Putnam Capital Preservation/Income Tr. (y) Formerly Putnam GNMA Plus Trust. (z) Formerly Equitec Siebel U.S. Govt. Secs. Fund. (aa) Formerly Vanguard F/I Secs. U.S. Treasury (bb) Formerly Vanguard F/I Secs. Short-Term Govt. Bond

See pages 93 for an explanation of BW Rating, Trend, and other terms

DATA MORNINGSTAR INC

MUTUAL FUND SCOREBOARD

FUN D	RATING	SIZE		FEES		PERFORMANCE			PORTFOLIO		TREND	
		ASSETS \$ MIL.	% CHG 1990-91	SALES CHARGE (%)	EXPENSE RATIO (%)	TOTAL RET. (%)			YIELD	MATURITY (YEARS)	3-YEAR ANALYSIS	
						1 YR.	3 YRS.	5 YRS.				
MUNICIPAL												
AAL MUNICIPAL BOND		150.5	50	4.75	0.90*	11.4	8.7		5.8	13.8		
AARP INSURED TAX-FREE GENERAL BOND	AVG	160.3	40	No load	0.77	12.3	9.8	8.0	5.6	19.1		
ABT FLORIDA TAX-FREE		128.2	198	4.75	0.33*	13.0			6.7	22.0		
ALLIANCE MUNI. CALIFORNIA	▲	236.6	56	4.50	0.39*	11.0	9.6	8.6	6.6	28.0		
ALLIANCE MUNI. INSURED NATIONAL	AVG	134.7	9	4.50	0.92*	12.2	9.6		6.1	24.0		
ALLIANCE MUNI. NATIONAL	▲	211.1	12	4.50	0.75*	12.4	10.0	8.7	6.5	26.0		
ALLIANCE MUNI. NEW YORK	▲	139.9	14	4.50	0.65*	12.3	9.6	7.1	6.6	26.0		
AMERICAN CAPITAL MUNICIPAL BOND	▲	274.6	12	4.75	0.60*	11.9	9.4	7.1	6.5	23.4		
AMERICAN CAPITAL T/E HIGH-YIELD	▲ ▲	227.9	5	4.75	0.97*	10.6	9.0	6.5	7.7	20.5		
ATLAS CALIFORNIA MUNICIPAL BOND	cc	106.6	430	3.00	0.00*	12.5			6.2	22.7		
BENHAM CALIFORNIA T/F INSURED	▲ ▼	114.1	71	No load	0.59	11.3	9.5	6.5	5.9	23.2		
BENHAM CALIFORNIA T/F INTERMED.-TERM	▲ ▲	260.1	28	No load	0.55	10.4	8.4	6.3	5.6	7.6		
BENHAM CALIFORNIA T/F LONG-TERM	▲	260.5	14	No load	0.55	11.6	9.4	6.6	6.2	22.7		
BERNSTEIN DIVERSIFIED MUNICIPAL		231.6	42	No load	0.71	10.2			5.5	7.7		
BERNSTEIN NEW YORK MUNICIPAL		203.1	24	No load	0.70	10.4			5.6	8.3		
CALIFORNIA TAX-EXEMPT BONDS	AVG	136.4	18	4.75	0.66	11.1	9.4	7.8	6.4	21.5		
CALIFORNIA TAX-FREE INCOME	▲	167.4	82	No load	0.60	12.1	9.6	7.7	6.1	23.8		
CALVERT TAX-FREE RESERVES LTD.-TERM	▲ ▲ ▲	291.3	92	2.00	0.75	6.5	6.7	6.1	5.9	0.9		
CHURCHILL TAX-FREE FUND OF KENTUCKY	▲ ▲	114.0	73	4.00	0.10	11.0	10.2		6.4	14.3		
CIGNA MUNICIPAL BOND	▲ ▲ ▲	273.0	6	5.00	0.91*	13.3	9.4	7.6	6.3	26.8		
COLONIAL CALIFORNIA TAX-EXEMPT	▲	299.1	34	4.75	0.80	11.2	8.6	6.6	6.5	23.2		
COLONIAL MASSACHUSETTS TAX-EXEMPT	AVG	141.3	76	4.75	0.40	13.1	9.2		6.7	23.3		
COLONIAL TAX-EXEMPT	AVG	2550.7	33	4.75	1.02*	11.7	8.7	7.3	7.2	23.7		
COLONIAL TAX-EXEMPT INSURED	AVG	198.1	36	4.75	1.06*	11.7	9.1	7.1	6.2	23.0		
COLUMBIA MUNICIPAL BOND	AVG	285.1	37	No load	0.58	11.7	9.2	7.7	5.9	16.4		
COMPOSITE TAX-EXEMPT BOND	AVG	140.3	26	4.00	0.83*	11.4	8.7	7.5	6.0	7.8		
DEAN WITTER CALIFORNIA TAX-FREE INCOME	▲ ▲	300.0	19	5.00**	1.22*	10.0	8.4	6.6	5.6	22.6		
DEAN WITTER NEW YORK TAX-FREE INCOME	▲ ▲	175.0	11	5.00**	1.42*	12.4	8.5	6.9	5.4	23.0		
DEAN WITTER TAX-EXEMPT SECURITIES	▲	1200.0	19	4.00	0.52	12.2	9.5	7.9	6.4	21.8		
DELAWARE GROUP TAX-FREE USA	▲ ▲	686.7	5	4.75	0.74	12.4	8.9	7.7	6.5	24.0		
DMC TAX-FREE INCOME PENNSYLVANIA	AVG	759.5	16	4.75	0.71	12.9	9.0	7.6	6.5	21.7		
DREYFUS CALIFORNIA TAX-EXEMPT BOND	▲	1729.3	12	No load	0.69	10.3	8.5	6.6	6.4	24.0		
DREYFUS INSURED MUNICIPAL BOND	▲	244.3	19	No load	0.96*	11.4	9.0	7.0	6.0	24.4		
DREYFUS INTERMEDIATE MUNI. BOND	▲ ▲	1379.0	21	No load	0.69	11.1	8.9	7.1	6.5	10.0		
DREYFUS MASSACHUSETTS TAX-EXEMPT BOND	▲ ▲	149.1	34	No load	0.81	12.7	8.8	6.6	6.3	20.9		
DREYFUS NEW JERSEY MUNICIPAL BOND	▲ ▲	515.7	47	No load	0.75*	12.0	9.7		6.2	22.6		
DREYFUS NEW YORK INSURED T/E BOND	AVG	147.5	60	No load	0.67*	13.1	9.2		5.8	23.6		
DREYFUS NEW YORK T/E INTERMED. BOND	▲	147.2	40	No load	0.63*	11.1	8.8		6.0	9.9		
DREYFUS NEW YORK TAX-EXEMPT BOND	▲	1881.7	14	No load	0.70	12.4	8.9	6.7	6.7	22.8		
DREYFUS SHORT-INTERMEDIATE TAX-EXEMPT	▲ ▲ ▲	157.6	104	No load	0.59*	8.3	7.1		5.5	8.9		
DREYFUS TAX-EXEMPT BOND	▲ ▲	4117.4	12	No load	0.67	12.0	9.2	7.4	6.6	23.3		
DUPREE KENTUCKY TAX-FREE INCOME	▲ ▲ ▲	141.6	44	No load	0.75	10.8	9.7	7.6	6.4	14.5		
EATON VANCE CALIFORNIA MUNICIPAL	▲ ▲ ▲	361.3	22	6.00**	1.90*	9.4	7.6	5.7	6.1	23.9		
EATON VANCE NATIONAL MUNICIPAL	cc	1025.0	15	6.00**	1.86*	11.8	7.7	6.2	7.1	22.6		
FEDERATED TAX-FREE INCOME	AVG	613.5	20	4.50	0.86*	12.5	9.5	7.9	6.1	27.3		
FIDELITY AGGRESSIVE TAX-FREE	▲ ▲ ▲	650.4	19	5.00*	0.68	11.6	9.6	8.7	7.3	20.7		
FIDELITY CALIFORNIA TAX-FREE HIGH-YIELD	▲	539.9	4	No load	0.59	10.2	8.9	6.8	6.4	19.5		
FIDELITY CALIFORNIA TAX-FREE INSURED	AVG	159.0	54	No load	0.70	11.0	8.9	6.6	5.9	22.0		
FIDELITY HIGH-YIELD TAX-FREE	▲ ▲	1991.8	13	No load	0.56	10.2	10.0	7.7	6.6	16.1		
FIDELITY INSURED TAX-FREE	▲	301.3	82	No load	0.57	10.6	9.4	7.3	6.0	21.6		
FIDELITY LIMITED-TERM MUNICIPAL	▲ ▲ ▲	692.7	49	No load	0.67	11.2	8.9	7.0	6.2	11.2		
FIDELITY MA TAX-FREE HIGH-YIELD	▲ ▲ ▲	995.9	39	No load	0.56	11.3	9.3	7.4	6.6	17.5		
FIDELITY MICHIGAN TAX-FREE HIGH-YIELD	▲ ▲	376.1	36	No load	0.63	12.0	9.1	7.4	6.5	21.2		
FIDELITY MINNESOTA TAX-FREE HIGH-YIELD	▲	220.9	33	No load	0.75	8.5	8.3	6.6	6.4	21.7		
FIDELITY NEW YORK MUNICIPAL BOND	▲ ▲	1159.5	9	No load	0.50	11.9	9.4	7.7	6.8	21.7		
FIDELITY NEW YORK TAX-FREE HIGH-YIELD	▲	412.7	9	No load	0.61	13.4	9.2	7.3	6.9	22.5		
FIDELITY NEW YORK TAX-FREE INSURED	▲	294.4	29	No load	0.64	10.5	9.2	7.0	6.0	21.8		
FIDELITY NEW YORK TAX-FREE HIGH-YIELD	▲ ▲	326.6	36	No load	0.65	11.4	9.6	7.7	6.4	19.7		

*Includes sales loads charge of 1.0% (plan member shareholders purchasing new accounts or deposits). †New Fund. ‡Lowest. §Monthly. ¶Total return. N/A Not available. N/A Not meaningful. **Double T/E Bond Fund. ††Formerly Action Fund High Yield Municipal Fund.

See pages 93 for an explanation of BW Rating, Trend, and other terms.

DATA WORKINGSTAT

MUTUAL FUND SCOREBOARD

FUND	RATING	SIZE		FEES		PERFORMANCE			PORTFOLIO		TREND 3-YEAR ANALYSIS
		ASSETS \$ MIL.	% CHG 1990-91	SALES CHARGE (%)	EXPENSE RATIO (%)	TOTAL RET. (%)			YIELD	MATURITY (YEARS)	
						1 YR	3 YRS	5 YRS.			
DELITY SPARTAN CA MUNI. HIGH-YIELD		436.4	98	0.50*	0.35	11.5			6.3	22.7	
DELITY SPARTAN CT MUNI. HIGH-YIELD	▲	359.1	43	0.50*	0.55	10.6	9.2		6.2	19.5	
DELITY SPARTAN MUNI. INCOME		710.0	239	0.50*	0.23	12.7			6.8	22.0	
DELITY SPARTAN NJ MUNI. HIGH-YIELD (ee)	▲ ▲	297.4	42	0.50*	0.52	12.3	9.9		6.2	22.7	
DELITY SPARTAN NY MUNI. HIGH-YIELD		258.5	95	0.50*	0.35	14.4			6.4	23.1	
DELITY SPARTAN PA MUNI. HIGH-YIELD	▲ ▲	198.5	40	0.50*	0.55	12.5	9.8	7.3	6.8	22.0	
DELITY SPARTAN SHORT-INTERM. MUNI.	▲ ▲ ▲	242.3	313	No load	0.55	8.9	7.2	5.1	5.7	3.0	
FINANCIAL TAX-FREE INCOME SHARES		247.7	30	No load	0.93†	12.6	10.4	8.3	5.9	25.9	
FIRST INVESTORS INSURED TAX-EXEMPT		1208.3	7	6.90	1.13†	10.3	8.5	7.6	6.4	19.1	
FIRST INVESTORS NY INSURED TAX-FREE		162.3	4	6.90	1.23†	11.0	8.6	6.7	5.8	20.2	
FIDELITY ALL-AMERICAN TAX-EXEMPT	AVG	113.8	88	4.20	0.42†	14.5	10.6		6.9	24.9	
FIDELITY CT DOUBLE TAX-EXEMPT		125.2	41	4.20	0.67†	11.5	8.8		6.3	21.4	
FIDELITY FL DOUBLE TAX-EXEMPT		234.0	150	4.20	0.19†	13.3			6.8	22.8	
FIDELITY KY TRIPLE TAX-EXEMPT		179.4	42	4.20	0.72†	12.4	9.9		6.4	22.0	
FIDELITY LIMITED-TERM TAX-EXEMPT	▲ ▲	177.8	582	2.50	0.56†	10.0	8.2		6.3	5.6	
FIDELITY MI TRIPLE TAX-EXEMPT		159.9	36	4.20	0.90†	11.6	9.0	7.6	6.3	20.1	
FIDELITY NC TRIPLE TAX-EXEMPT		121.8	21	4.20	0.99†	11.7	9.1	7.3	6.1	19.2	
FIDELITY OH DOUBLE TAX-EXEMPT		304.5	25	4.20	1.02†	11.8	9.2	7.9	6.2	19.1	
FIDELITY TN DOUBLE TAX-EXEMPT		118.1	45	4.20	0.76†	11.6	9.1		6.2	19.3	
FIDELITY TRESS MUNICIPAL INCOME	▲ ▲	181.0	64	1.75*	1.02†	10.9	9.4		6.6	8.3	
FIDELITY AZ TAX-FREE INCOME		574.2	57	4.00	0.55	12.1	9.0		6.8	21.0	
FIDELITY CA INSURED TAX-FREE INCOME		737.8	107	4.00	0.57	10.7	8.8	6.4	6.4	25.5	
FIDELITY CA TAX-FREE INCOME	AVG	12281.0	10	4.00	0.48	10.8	8.5	7.2	7.0	22.0	
FIDELITY CO TAX-FREE INCOME	AVG	106.3	67	4.00	0.70	12.2	9.1		6.8	22.0	
FIDELITY FEDERAL TAX-FREE INCOME	AVG	4986.5	22	4.00	0.50	13.1	9.0	7.4	7.2	23.0	
FIDELITY FL TAX-FREE INCOME	AVG	871.9	55	4.00	0.53	12.4	9.3		7.0	23.0	
FIDELITY H/Y TAX-FREE INCOME	AVG	2044.1	21	4.00	0.51	12.2	8.8	8.8	7.9	22.0	
FIDELITY INSURED TAX-FREE INCOME	AVG	1072.2	31	4.00	0.53	11.2	9.1	7.1	6.5	22.0	
FIDELITY MA INSURED TAX-FREE INCOME		208.7	44	4.00	0.67	11.3	8.3	6.6	6.5	22.0	
FIDELITY MI INSURED TAX-FREE INCOME		644.9	31	4.00	0.59	10.8	8.6	6.9	6.5	22.0	
FIDELITY MN INSURED TAX-FREE INCOME	AVG	344.8	28	4.00	0.65	10.7	8.5	6.8	6.6	20.0	
FIDELITY MO TAX-FREE INCOME	AVG	104.9	120	4.00	0.72	11.8	9.2		6.6	22.0	
FIDELITY NC TAX-FREE INCOME	AVG	102.2	129	4.00	0.70	11.4	9.2		6.7	22.0	
FIDELITY NJ TAX-FREE INCOME	AVG	325.4	38	4.00	0.59	12.3	9.3		6.4	24.0	
FIDELITY NY TAX-FREE INCOME	AVG	3421.0	16	4.00	0.50	13.4	9.0	7.3	7.1	23.0	
FIDELITY OH INSURED TAX-FREE INCOME	AVG	388.5	49	4.00	0.62	10.8	8.7	7.0	6.6	22.0	
FIDELITY OR TAX-FREE INCOME	AVG	197.0	77	4.00	0.65	12.5	9.0		6.4	23.0	
FIDELITY PA TAX-FREE INCOME		380.0	35	4.00	0.59	13.3	8.9	7.5	6.8	24.0	
FIDELITY PR TAX-FREE INCOME		120.2	36	4.00	0.70	12.1	8.9	7.2	6.4	18.0	
FIDELITY TX TAX-FREE INCOME	AVG	123.1	1131	4.00	0.70	12.0	9.5		7.2	23.0	
FIDELITY VA TAX-FREE INCOME	AVG	145.3	102	4.00	0.68	12.4	9.3		6.8	22.0	
FIDELITY FREEDOM MANAGED TAX-EXEMPT B		215.4	46	4.00**	1.19†	11.9	9.3		6.1	24.4	
FIDELITY GENERAL CA MUNICIPAL BOND		299.3	128	No load	0.21†	10.9			6.7	27.5	
FIDELITY GENERAL MUNICIPAL BOND	▲ ▲	683.1	153	No load	0.00†	14.7	11.2	7.9	7.2	25.3	
FIDELITY GENERAL NEW YORK MUNICIPAL BOND	▲	223.7	95	No load	0.36†	14.1	9.1	6.8	6.6	20.7	
FIDELITY CALIFORNIA MUNICIPAL INCOME		234.2	53	4.50	1.05†	9.9			6.3	27.0	
FIDELITY NEW NATIONAL MUNICIPAL INCOME		129.5	476	4.50	0.55†	15.5			6.9	21.0	
FIDELITY JOHN HANCOCK TAX-EXEMPT INCOME		422.3	12	4.50	1.21†	12.2	9.1	7.8	6.1	24.6	
FIDELITY HAWAIIAN TAX-FREE	▲	458.2	19	4.00	0.71	10.5	8.8	7.2	6.3	17.5	
FIDELITY HELMSMAN TAX-FREE INCOME		108.6	55	No load	0.30†	9.9			5.7	8.3	
FIDELITY S CALIFORNIA TAX-EXEMPT		207.6	27	5.00	0.60†	11.0	8.9	6.9	6.1	25.9	
FIDELITY S HIGH-YIELD TAX-EXEMPT		5435.8	14	5.00	0.60†	12.0	9.5	7.6	7.0	8.2	
FIDELITY S INSURED TAX-EXEMPT		249.5	57	5.00	0.67†	11.7	9.3	7.4	6.0	24.6	
FIDELITY S MINNESOTA TAX-EXEMPT	AVG	274.0	36	5.00	0.63†	10.8	9.0	6.8	6.4	7.6	
FIDELITY S TAX-EXEMPT BOND		1245.7	14	5.00	0.60†	10.1	9.5	7.1	5.8	23.5	
FIDELITY TEMPER MUNICIPAL BOND		2598.1	20	4.50	0.48	13.4	10.4	8.6	6.4	21.0	
FIDELITY TEMPER STATE TAX-FREE INCOME CA		1062.8	33	4.50	0.66	11.4	9.9	8.2	6.2	23.0	
FIDELITY TEMPER STATE TAX-FREE INCOME NY		245.4	31	4.50	0.40	13.3	10.4	7.4	6.3	23.0	
FIDELITY EYSTONE AMERICA TAX-FREE INCOME	▲	137.3	-5	4.00**	1.66†	11.4	8.5		5.9	24.9	
FIDELITY EYSTONE TAX-EXEMPT		651.6	11	4.00**	1.84†	11.0	8.3	6.8	6.2	22.8	

Includes redemption fee **Includes deferred sales charge †12(b)(1) plan in effect ‡Not currently accepting new accounts or deposits \$New fund less than 12 months total return NA - Not available. NM = Not meaningful
 † Formerly Fidelity New Jersey Tax-Free High-Yield

See pages 93 for an explanation of BW Rating, Trend, and other terms

DATA: MORNINGSTAR INC

MUTUAL FUND SCOREBOARD

	RATING	SIZE		FEES		PERFORMANCE			PORTFOLIO		TREND
		ASSETS \$ MIL.	% CHG 1990-91	SALES CHARGE (%)	EXPENSE RATIO (%)	TOTAL RET. (%)			YIELD	MATURITY YEARS	
						1 YR.	3 YRS.	5 YRS.			3-YEAR ANALYSIS
KEYSTONE TAX-FREE		1141.2	8	4.00**	1.89†	11.0	9.0	7.5	6.7	22.1	
LIBERTY ADVANTAGE TAX-FREE BOND		110.8	28†	4.30	0.59†	11.3			6.2	22.0	
LIMITED-TERM MUNICIPAL NATIONAL	▲ ▲	384.2	62	2.75	1.07†	8.6	7.6	7.0	6.3	5.0	
LORD ABBETT CA TAX-FREE INCOME	▲	172.8	54	4.75	0.75†	10.8	10.3	8.1	6.5	26.3	
LORD ABBETT TAX-FREE INCOME NATIONAL	▲	440.1	33	4.75	0.75†	12.9	9.9	8.5	6.6	24.2	
LORD ABBETT TAX-FREE INCOME NY	▲	250.9	30	4.75	0.76†	14.2	9.9	9.4	6.8	24.5	
MAINSTAY TAX-FREE BOND	▲ ▲ ▲	210.8	51	5.00**	1.40†	10.9	7.6	6.5	6.0	23.6	
MERRILL LYNCH CA MUNICIPAL BOND B	▲ ▲	710.9	8	4.00**	1.15†	10.0	8.4	6.6	5.5	24.8	
MERRILL LYNCH FL MUNICIPAL BOND B	▲ ▲	107.1	NA	4.00**	0.79†	7.6§				21.4	
MERRILL LYNCH MUNICIPAL HIGH-YIELD A	▲	1261.0	-3	4.00	0.55	12.6	9.1	7.7	6.8	25.9	
MERRILL LYNCH MUNICIPAL INCOME B	AVG	97.6	-8	2.00**	1.18†	10.9	7.9	5.8	5.6	NA	
MERRILL LYNCH MUNICIPAL INSURED A	▲	2056.8	5	4.00	0.45	12.3	9.1	8.1	6.7	25.7	
MERRILL LYNCH MUNICIPAL LIMITED	▲ ▲ ▲	465.3	40	0.75	0.40	7.6	6.9	5.9	5.7	5.2	
MERRILL LYNCH NJ MUNICIPAL BOND B	▲ ▲	99.1	239	4.00**	1.00†	10.5			5.7	NA	
MERRILL LYNCH NY MUNICIPAL BOND B	▲ ▲	578.0	4	4.00**	1.17†	12.6	8.5	6.9	5.7	24.7	
METLIFE-STATE STREET TAX-EXEMPT	▲ ▲ ▲	118.0	39	4.50	1.25†	11.8	8.7	7.5	5.8	23.1	
MFS LIFETIME MANAGED MUNI. BOND	▲	417.4	11	6.00**	2.07†	11.4	8.0	6.4	5.6	24.8	
MFS MANAGED CA MUNICIPAL BOND	▲	164.1	101	4.75	0.60†	11.4	9.2	7.4	6.1	22.8	
MFS MANAGED HIGH-YIELD MUNI. BOND	AVG	648.0	10	4.75†	1.05	10.5	8.0	6.9	6.3	20.3	
MFS MANAGED MULTI-STATE MUNI. MA	AVG	237.7	12	4.75	1.08†	11.8	8.7	7.2	6.5	20.6	
MFS MANAGED MULTI-STATE MUNI. MD	▲	116.9	17	4.75	1.17†	9.9	8.4	7.1	6.2	20.7	
MFS MANAGED MULTI-STATE MUNI. NC	▲	308.7	40	4.75	1.11†	9.9	8.5	6.9	6.1	21.4	
MFS MANAGED MULTI-STATE MUNI. SC	▲ ▲	99.7	35	4.75	1.17†	10.2	8.6	7.8	6.0	22.5	
MFS MANAGED MULTI-STATE MUNI. VA	AVG	325.6	20	4.75	1.11†	10.4	8.9	7.7	6.2	22.1	
MFS MANAGED MUNICIPAL BOND	▲ ▲	1766.4	21	4.75	0.91†	12.8	9.6	8.4	6.2	20.6	
MUTUAL OF OMAHA TAX-FREE INCOME	▲	409.0	13	4.75	0.78†	12.5	10.0	8.0	6.0	18.4	
NATIONAL SECURITIES TAX-EXEMPT BONDS	AVG	106.5	13	4.75	0.76	11.9	9.4	7.8	6.8	21.0	
NATIONWIDE TAX-FREE	AVG	127.9	37	5.00**	1.01†	10.8	9.0	6.5	5.8	20.4	
NEW ENGLAND TAX-EXEMPT INCOME	▲ ▲ ▲	163.0	11	4.50	0.97†	11.8	9.2	7.2	6.6	24.3	
NEW YORK MUNI.	▲ ▲ ▲	184.0	-3	No load	1.70†	15.8	7.8	5.3	5.1	21.9	
NUVEEN CA TAX-FREE SPECIAL BOND	AVG	125.6	38	4.75	0.69	11.1	9.6	7.3	6.3	NA	
NUVEEN INSURED TAX-FREE NATIONAL	▲ ▲	276.6	66	4.75	0.73	12.8	9.7	8.1	6.1	25.9	
NUVEEN INSURED TAX-FREE NY	▲	149.6	106	4.75	0.69	13.4	9.5	6.9	6.1	NA	
NUVEEN MUNICIPAL BOND	AVG	1754.0	25	4.75	0.60	11.3	9.5	8.2	6.4	21.9	
OPPENHEIMER CALIFORNIA TAX-EXEMPT	▲	145.0	57	4.75	0.80†	10.8	9.6		6.0	22.7	
OPPENHEIMER NEW YORK TAX-EXEMPT	AVG	386.8	44	4.75	0.96†	12.2	8.7	7.2	6.4	19.4	
OPPENHEIMER TAX-FREE BOND	AVG	393.6	53	4.75	0.88†	12.1	9.1	7.3	6.7	21.3	
OVERLAND EXPRESS CA TAX-FREE BOND	▲	332.8	66	4.50	0.24†	11.6	9.6		6.5	20.3	
PACIFIC HORIZON CA TAX-EXEMPT BOND	AVG	138.4	31	1.75	1.00†	11.1	8.9	6.7	6.1	28.4	
PACIFICA CALIFORNIA TAX-FREE	▲	158.1	109	4.50	0.57†	10.8			5.7	13.0	
PAINWEBBER CA TAX-FREE INCOME A	AVG	235.6	11	4.25	0.74†	10.8	8.8	7.4	6.2	25.4	
PAINWEBBER NATL. TAX-FREE INCOME A	▲	374.2	8	4.25	0.73†	11.1	8.9	7.7	6.5	25.3	
PARKSTONE MICHIGAN MUNICIPAL BOND	▲	123.3	76	4.00	0.57	9.8			5.2	6.9	
PARKSTONE MUNICIPAL BOND	▲	123.9	35	4.00	0.87	9.2	7.6		5.1	7.6	
PREMIER CALIFORNIA MUNICIPAL BOND	▲	219.5	40	4.50	0.40†	11.1	9.7	7.7	6.5	26.8	
PREMIER MUNICIPAL BOND	▲	354.6	92	4.50	0.41†	13.9	10.4	7.5	6.9	25.9	
PREMIER STATE MUNICIPAL BOND CT	AVG	255.3	78	4.50	0.40†	11.0	9.2		6.3	23.4	
PREMIER STATE MUNICIPAL BOND FL	▲	231.6	64	4.50	0.41†	12.4	10.5		6.6	24.5	
PREMIER STATE MUNICIPAL BOND MD	▲	234.3	62	4.50	0.42†	11.9	10.0		6.4	30.3	
PREMIER STATE MUNICIPAL BOND MI	AVG	140.2	53	4.50	0.42†	13.0	9.9		6.5	24.2	
PREMIER STATE MUNICIPAL BOND MN	▲	117.5	60	4.50	0.41†	11.4	10.2		6.6	25.8	
PREMIER STATE MUNICIPAL BOND OH	▲ ▲	230.7	64	4.50	0.40†	10.3	10.1		6.6	24.3	
PREMIER STATE MUNICIPAL BOND PA	▲ ▲	148.6	57	4.50	0.45†	12.2	10.5		6.8	24.5	
ROWE PRICE CA TAX-FREE BOND	▲	108.4	35	No load	0.60	12.1	8.8	5.6	5.9	21.6	
ROWE PRICE MD TAX-FREE BOND	▲	452.5	60	No load	0.65	11.2	9.0		5.9	18.8	
ROWE PRICE TAX-FREE HIGH-YIELD	▲ ▲ ▲	622.9	27	No load	0.83	11.7	9.8	8.1	6.9	20.5	
ROWE PRICE TAX-FREE INCOME	▲	1251.4	16	No load	0.62	12.2	9.0	6.0	6.2	20.7	
ROWE PRICE TAX-FREE SHORT-INT.	▲ ▲	307.0	35	No load	0.67	7.9	6.9	5.6	5.4	3.3	
SERIAL CA MUNICIPAL CALIF. SER. B (hh)	▲ ▲ ▲	172.3		5.00**	1.26†	10.7	8.2	5.9	5.8	14.2	
SERIAL CA MUNICIPAL HIGH-YIELD B (ii)	AVG	792.1	18	5.00**	1.00†	12.0	8.9		6.8	23.1	

MUTUAL FUND SCOREBOARD

	RATING	SIZE		FEES		PERFORMANCE			PORTFOLIO		TREND
		ASSETS \$ MIL.	% CHG. 1990-91	SALES CHARGE (%)	EXPENSE RATIO (%)	TOTAL RET. (%)			YIELD	MATURITY (YRS.)	
						1 YR.	3 YRS.	5 YRS.			3-YEAR ANALYSIS
UDENTIAL MUNICIPAL INSURED B (ii)		632.9	16	5.00**	1.01↑	11.7	9.1		5.6	23.2	
UDENTIAL MUNICIPAL NEW JERSEY B (kk)		266.2	33	5.00**	0.69↑	12.2	9.6		5.9	20.8	
UDENTIAL MUNICIPAL NEW YORK B (ll)		302.8	4	5.00**	1.11↑	13.0	8.3	5.8	5.9	22.8	
UDENTIAL MUNICIPAL PENNSYLVANIA B (mm)		183.6	17	5.00**	1.23↑	11.9	8.5		5.6	11.0	
UDENTIAL NATIONAL MUNICIPAL B (nn)		874.3	-1	5.00**	1.14↑	12.4	8.6	6.5	5.7	18.7	
DNAM CA TAX-EXEMPT INCOME	AVG	2453.5	27	4.75	0.56	11.4	9.4	8.1	6.5	25.3	
DNAM FL TAX-EXEMPT INCOME		149.0	171	4.75	0.41	12.1			6.8	24.4	
DNAM NJ TAX-EXEMPT INCOME		130.9	84	4.75	0.66	11.9			6.8	24.2	
DNAM NY TAX-EXEMPT INCOME		1674.7	18	4.75	0.56	14.3	9.1	8.0	6.7	23.1	
DNAM OH TAX-EXEMPT INCOME	AVG	102.7	-1	2.50**	1.71↑	10.0	8.3	6.9	5.9	22.6	
DNAM TAX-EXEMPT INCOME		1562.4	14	4.75	0.54	12.7	9.4	7.9	6.6	24.0	
DNAM TAX-FREE HIGH-INCOME		303.2	32	4.75	0.95	12.3			7.9	23.6	
DNAM TAX-FREE HIGH-YIELD		807.8	23	5.00**	1.52↑	11.7	8.0	7.0	7.0	23.6	
DNAM TAX-FREE INSURED		394.9	23	5.00**	1.68↑	11.1	8.7	7.3	5.3	23.9	
CHESTER FUND MUNICIPALS		496.9	91	4.00	0.80↑	12.8	9.6	9.2	7.0	12.7	
CECO MUNICIPAL BOND		422.1	35	No load	0.55	13.8	10.1	8.8	6.2	22.1	
DDDER CALIFORNIA TAX-FREE		239.3	16	No load	0.83	12.7	9.8	7.9	5.7	20.5	
DDDER HIGH-YIELD TAX-FREE		159.1	24	No load	1.00	13.5	9.9		6.4	23.1	
DDDER MASSACHUSETTS TAX-FREE		100.8	67	No load	0.60	12.2	9.4		6.2	10.8	
DDDER MEDIUM-TERM TAX-FREE		267.1	919	No load	0.00	12.1	8.1	6.6	6.3	6.2	
DDDER MANAGED MUNICIPAL BONDS		794.2	11	No load	0.64	12.2	10.0	8.6	5.9	10.0	
DDDER NEW YORK TAX-FREE		158.7	13	No load	0.87	13.3	9.1	7.6	5.8	13.7	
IGMAN TAX-EXEMPT MASSACHUSETTS		120.6	10	4.75	0.83	13.0	9.1	7.6	6.3	21.3	
IGMAN TAX-EXEMPT MICHIGAN		133.6	13	4.75	0.80	12.0	9.5	8.0	6.0	22.3	
IGMAN TAX-EXEMPT MINNESOTA		179.2	6	4.75	0.80	7.5	8.0	7.0	6.2	19.5	
IGMAN TAX-EXEMPT NATIONAL		136.6	3	4.75	0.80	11.5	9.0	7.8	6.0	24.1	
IGMAN TAX-EXEMPT OHIO		160.1	13	4.75	0.77	11.3	9.3	8.1	6.2	19.0	
EARSON CALIFORNIA MUNICIPALS		363.0	11	5.00	0.67	11.5	9.2	7.6	6.6	23.8	
EARSON MANAGED MUNICIPALS		1608.6	12	5.00	0.61	14.2	9.7	8.0	6.9	24.5	
EARSON NEW YORK MUNICIPALS	AVG	467.3	10	5.00	0.64	13.0	9.1	7.6	6.9	23.5	
EARSON TAX-EXEMPT INCOME	AVG	695.1	20	5.00**	1.45↑	11.3	8.4	7.4	6.3	21.8	
"NEW BEGINNING" TAX-FREE INCOME		133.6	179	No load	0.80	9.2	8.3		7.2	17.0	
ITH BARNEY MUNI. BOND CALIFORNIA	AVG	119.1	25	4.00	0.21	12.4	10.0		6.9	25.3	
ITH BARNEY MUNI. BOND NATIONAL	AVG	249.3	34	4.00	0.39	12.8	9.8	8.1	6.9	26.4	
INROE HIGH-YIELD MUNICIPALS		399.8	20	No load	0.71	9.8	9.6	8.8	6.8	19.3	
INROE INTERMEDIATE MUNICIPALS		148.9	43	No load	0.80	10.7	8.8	6.8	5.3	7.8	
INROE MANAGED MUNICIPALS		713.0	16	No load	0.66	11.9	9.8	8.4	6.0	18.4	
ONG MUNICIPAL BOND	AVG	115.2	265	No load	0.30	13.4	8.3	6.1	6.6	21.1	
K-EXEMPT BOND FUND OF AMERICA		769.4	28	4.75	0.72↑	11.2	8.9	7.1	6.0	10.5	
K-EXEMPT FUND OF CALIFORNIA		121.5	30	4.75	0.85↑	10.1	8.5	6.2	5.7	9.8	
K-FREE FUND OF COLORADO		129.7	47	4.00	0.27	11.0	8.7		6.2	11.2	
K-FREE TRUST OF ARIZONA		200.2	32	4.00	0.58	11.7	9.3	7.6	6.4	18.9	
K-FREE TRUST OF OREGON		202.9	35	4.00	0.71	11.0	9.1	7.4	6.0	18.2	
ANSAMERICA CA TAX-FREE INCOME A		163.8	104	4.75	0.00↑	12.3			7.2	24.3	
ITED MUNICIPAL BOND		802.5	16	4.25	0.57	13.5	10.0	8.6	6.0	23.7	
ITED MUNICIPAL HIGH-INCOME		233.3	16	4.25	0.77	11.9	9.9	7.9	7.3	21.7	
AA TAX-EXEMPT CALIFORNIA BOND		294.0	73	No load	0.50	10.9			6.4	22.3	
AA TAX-EXEMPT HIGH-YIELD		1637.1	20	No load	0.39	12.4	9.8	7.9	6.7	22.4	
AA TAX-EXEMPT INTERMEDIATE-TERM		818.3	52	No load	0.42	11.1	9.0	7.3	6.5	8.5	
AA TAX-EXEMPT SHORT-TERM		602.8	67	No load	0.46	7.7	7.0	6.0	5.8	2.4	
AA TAX-EXEMPT VIRGINIA BOND		120.5	350	No load	0.50	11.7			6.3	23.9	
T MASTER TAX-EXEMPT INTERM.-TERM		179.4	76	4.50	0.66	10.4	8.6	7.4	6.0	10.2	
LUE LINE TAX-EXEMPT HIGH-YIELD		300.7	8	No load	0.56	12.3	9.1	7.7	6.6	22.1	
N KAMPEN MERRITT INSURED T/F INCOME		829.4	19	4.90	0.88↑	10.6	9.0	7.7	6.3	22.4	
N KAMPEN MERRITT MUNI. INCOME		292.3	100	4.90	0.67↑	14.0			7.3	26.7	
N KAMPEN MERRITT PA TAX-FREE INCOME		102.5	48	4.90	0.60↑	11.6	9.9		6.6	22.4	
N KAMPEN MERRITT T/F HIGH-INCOME		625.4	-1	4.90	1.08↑	8.5	7.1	6.8	7.7	23.5	
NGUARD CA TAX-FREE INS. LONG-TERM		645.9	65	No load	0.26	11.0	9.5	7.3	6.0	24.8	
NGUARD MUNICIPAL HIGH-YIELD	AVG	1341.8	32	No load	0.25	14.7	10.5	8.6	6.9	25.6	
NGUARD MUNICIPAL INSURED LONG-TERM		1701.6	36	No load	0.25	12.4	10.0	8.5	6.4	25.1	

Formerly Prudential-Bache Municipal High-Yield B. (kk) Formerly Prudential-Bache Municipal New Jersey B. (ll) Formerly Prudential-Bache Municipal New York B. (mm) Formerly Prudential-Bache Municipal Penn. B. (nn)
Formerly Prudential-Bache National Municipals

See pages 93 for an explanation of BW Rating, Trend, and other terms

DAT: MORNINGSTAR INC

MUTUAL FUND SCOREBOARD

	RATING	SIZE		FEES		PERFORMANCE			PORTFOLIO		TREN
		ASSETS \$ MIL	% CHG. 1990-91	SALES CHARGE (%)	EXPENSE RATIO (%)	TOTAL RET. (%)			YIELD	MATURITY (YEARS)	3-YEAR ANALY
						1 YR.	3 YRS	5 YRS.			
VANGUARD MUNI. INTERMEDIATE-TERM	▲ ▲	2459.7	74	No load	0.25	12.2	9.8	8.1	6.2	13.1	
VANGUARD MUNICIPAL LIMITED-TERM	▲ ▲ ▲	547.0	102	No load	0.26	9.5	8.2		5.6	4.4	
VANGUARD MUNICIPAL LONG-TERM	AVG	887.8	25	No load	0.25	13.5	10.6	8.5	6.7	25.7	
VANGUARD MUNICIPAL SHORT-TERM	▲ ▲ ▲	874.2	16	No load	0.25	7.2	7.0	6.1	5.3	3.5	
VANGUARD NJ T/F INSURED LONG-TERM		452.9	80	No load	0.25	11.3	9.8		6.2	24.7	
VANGUARD NY INSURED TAX-FREE	AVG	431.1	76	No load	0.29	12.8	9.8	7.4	6.3	22.5	
VANGUARD PA T/F INSURED LONG-TERM	AVG	872.8	54	No load	0.26	12.2	9.9	8.0	6.3	23.9	
VENTURE MUNI. (+) PLUS	▲	97.9	22	5.00**	2.41↑	11.7	8.4	7.2	8.1	19.1	
VOYAGEUR COLORADO TAX-FREE	▲ ▲	104.9	94	3.90	1.00	10.6	9.4		6.0	22.0	
VOYAGEUR MN TAX-FREE	▲ ▲	251.6	27	4.75	0.86↑	10.9	8.9	7.6	6.3	18.0	

INTERNATIONAL

ALLIANCE MULTI-MARKET STRATEGY B		864.2	NA	3.00**	3.53†	2.5§				1.4	▲ ▲
ALLIANCE SHORT-TERM MULTI-MARKET B		3942.7	77	3.00**	1.81†	8.7			8.8	1.1	▲ ▲
ALLIANCE WORLD INCOME		848.1	112	No load	1.85†	5.4			7.4	0.5	▲ ▲
BLANCHARD SHORT-TERM GLOBAL INCOME		1170.5	NA	No load	0.97†	4.4§				2.2	▲ ▲
CAPITAL WORLD BOND		94.0	86	4.75	1.42†	15.3	10.4		6.9	8.7	▲ ▲
DEAN WITTER WORLD WIDE INCOME		425.0	-6	5.00**	1.76†	1.1			7.9	4.5	▲ ▲
EATON VANCE SHORT-TERM GLOBAL INCOME		662.1	635	3.00**	2.20†	8.3			9.2	2.5	▲ ▲
FIDELITY GLOBAL BOND	AVG	184.0	37	No load	1.35	12.8	11.0	11.1	7.6	5.5	▲ ▲
FIDELITY SHORT-TERM WORLD INCOME		207.5	NA	No load	1.00	0.1§				1.0	▲ ▲
FREEDOM GLOBAL INCOME B		195.0	9	4.00**	1.90†	11.6	9.8	13.1	8.4	7.1	▲ ▲
FREEDOM SHORT-TERM WORLD INCOME B		246.0	NA	3.00**	1.78†	7.3			9.2	1.4	▲ ▲
G.T. GLOBAL GOVERNMENT INCOME		433.2	51	4.75	1.50†	13.7	11.2		11.0	5.9	▲ ▲
GOLDMAN SACHS GLOBAL INCOME		429.3	NA	3.00	NA†	3.3§				NA	▲ ▲
KEMPER INVESTMENT SHORT-TERM GLOBAL		203.4	NA	3.00**	1.84†	6.6§				0.5	▲ ▲
KEMPER SHORT-TERM GLOBAL INCOME		295.4	998	3.50	1.31	10.3			10.3	0.5	▲ ▲
LORD ABBETT GLOBAL INCOME		101.0	47	4.75	1.16†	15.0	12.8		10.1	7.8	▲ ▲
MERRILL LYNCH GLOBAL BOND B (oo)		380.7	39	4.00**	1.81†	15.0	12.0	12.5	7.7	13.9	▲ ▲
MERRILL LYNCH SHORT-TERM GLOBAL INC. B		5932.3	2698	3.00**	1.50†	6.1			9.2	1.5	▲ ▲
MFS LIFETIME INTERMEDIATE-INCOME		208.3	60	6.00**	2.28†	11.7	8.8		5.7	6.2	▲ ▲
MFS WORLDWIDE GOVERNMENTS		270.7	85	4.75	1.70†	13.4	12.8	13.3	5.8	10.2	▲ ▲
PAINWEBBER GLOBAL INCOME B (pp)	AVG	1667.9	20	5.00**	1.94†	10.7	11.2		7.9	4.7	▲ ▲
PAINWEBBER SHORT-TERM GLOBAL INCOME B		392.7	NA	3.00**	1.96†	3.3§				NA	▲ ▲
PILGRIM SHORT-TERM MULTI-MARKET INC. (qq)		170.6	23	3.50	1.51†	1.4	-8.8	-5.4	11.0	0.9	▲ ▲
T. ROWE PRICE INTERNATIONAL BOND		414.0	-4	No load	1.37	17.7	9.8	10.8	7.5	7.3	▲ ▲
PUTNAM GLOBAL GOVERNMENTAL INCOME		376.7	58	4.75	1.48†	15.1	13.0		7.5	10.0	▲ ▲
SCUDDER INTERNATIONAL BOND	▲ ▲	296.8	56	No load	1.25	22.2	16.7		8.1	13.2	▲ ▲
SCUDDER SHORT-TERM GLOBAL INCOME		348.0	NA	No load	1.00	9.3§				1.5	▲ ▲
SHEARSON SHORT-TERM GLOBAL INCOME		186.0	86	3.00**	1.61†	4.3			8.4	NA	▲ ▲
SHEARSON SHORT-TERM WORLD INCOME		369.2	-19	3.00	1.25†	4.8			9.4	NA	▲ ▲
SHEARSON WORLDWIDE PRIME ASSETS		590.9	NA	No load	1.69†	3.1§				0.2	▲ ▲
TEMPLETON INCOME	AVG	144.6	23	4.50	1.00	14.9	11.1	9.8	8.2	5.6	▲ ▲
VAN ECK WORLD INCOME	▲	147.9	140	4.75	1.61†	19.6	15.9		12.0	4.8	▲ ▲
VAN KAMPEN MERRITT S/T GLOBAL INCOME A		125.1	368	3.00	1.57†	9.5			9.9	1.6	▲ ▲

CONVERTIBLE

AMERICAN CAPITAL HARBOR A		385.1	14	5.75	0.89†	23.1	13.6	10.5	6.2	14.7	▲ ▲
DEAN WITTER CONVERTIBLE SECURITIES		290.0	-20	5.00**	1.93†	27.3	8.3	4.4	5.5	19.7	▲ ▲
DREYFUS CONVERTIBLE SECURITIES		240.3	22	No load	1.07	33.1	8.4	8.9	3.6	10.4	▲ ▲
FIDELITY CONVERTIBLE SECURITIES	▲	133.4	123	No load	1.32	38.7	19.4		4.6	16.7	▲ ▲
LABELLI CONVERTIBLE SECURITIES		92.6	13	4.50	1.49	12.5			6.4	NA	▲ ▲
LORD ABBETT BOND-DEBENTURE		594.0	24	4.75	0.80†	38.4	10.4	9.3	10.9	15.2	▲ ▲
MOENIX CONVERTIBLE		173.3	15	4.75	1.14†	12.8	12.1	10.2	4.2	16.5	▲ ▲
PRUDENTIAL INCOMEVERTIBLE PLUS B (rr)		401.0	-5	5.00**	2.15†	19.8	10.9	9.6	6.2	13.4	▲ ▲
PUTNAM CONVERTIBLE INCOME-GROWTH		568.6	2	5.75	1.15†	29.4	10.7	7.5	6.0	17.2	▲ ▲
REDFORD CONVERTIBLE SECURITIES		29.6	95	No load	1.39	27.7	13.0		7.9	NA	▲ ▲
SHEARSON CONVERTIBLE		61.6	-15	5.00**	1.92†	24.9	7.8	7.4	5.0	11.1	▲ ▲
WELLS FARGO CONVERTIBLE		38.1	9	No load	1.19	28.7	11.1	8.4	5.0	16.9	▲ ▲
VANGUARD CONVERTIBLE SECURITIES		60.4	33	No load	0.88	34.3	12.6	8.1	5.2	16.0	▲ ▲

† Includes deferred sales charge. ** Includes deferred sales charge. †12(b)-1 plan in effect. ‡ Not currently accepting new accounts or deposits. § New fund, less than 12 months' total return. NA = Not available. NM = Not meaningful. (oo) Formerly PaineWebber Master Global Income Fund. (qq) Formerly Pilgrim Preferred Stock Fund. (rr) Formerly Prudential-Bache IncomeVestible Plus B.

See pages 93 for an explanation of BW Rating, Trend, and other terms

DATA: MORNINGSTAR

7.47%*
CURRENT YIELD

WHY SETTLE FOR THE LOWEST RATES IN 20 YEARS?

T. ROWE PRICE ADJUSTABLE RATE U.S. GOVERNMENT FUND

With short-term rates at a 20-year low, many investors are seeking ways to get higher income without taking on too much risk. This new Fund offers higher income with protection from both *credit risk* and *interest rate risk*.

Adjustable rates add income and stability. The Fund invests primarily in adjustable rate mortgage securities (ARMs). These securities, which have high credit quality, should offer higher income because ARM rates are set *above* short-term indexes. And adjustable rates make the securities' price less interest rate sensitive.

Putting risk in perspective. This Fund is designed for investors who want higher income with low volatility. Its yield and share price will vary as rates changes.

All Fund expenses are waived through June 30, 1992, and will be limited to 0.40% through June 1993. Without this fee waiver, the Fund's current yield would have been lower.

Before you invest, read our free guide. It can help you understand the Fund's risks and rewards, and, with the prospectus, help you decide if this Fund is right for you.

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Adjustable rate mortgage securities	
How they work	Benefits to you
• Higher interest rates ARM rates are usually as much as 2% higher than a short-term benchmark like the One-Year U.S. Treasury Index. • Adjustable rates ARM rates are regularly reset to reflect current interest rates. • U.S. Government or agency backing Most of the Fund's securities represent mortgages backed by the U.S. Government or one of its agencies. The Fund itself is not guaranteed.	• Higher income You should enjoy higher rates than short-term Treasuries or money markets pay. • Reduced volatility ARM securities generally provide greater stability than long-term fixed-rate securities. • High credit safety The Fund's holdings offer high credit quality.

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ARG014525

2.0% is the total return for three months since inception, 9/30/91 to 12/31/91. This figure is not annualized, and includes changes in principal value and reinvested dividends. Total return represents past performance. Without fee waiver, total return would have been lower. The Fund's investment return and principal value will vary, and shares may be worth more or less at redemption than at original purchase. *Average annualized yield for the 30 days ended 1/12/92. Request a prospectus with more complete information, including management fees and other charges and expenses. Read it carefully before you invest or send money.
T. Rowe Price Investment Services, Inc., Distributor, 100 E. Pratt St., Baltimore, MD 21202

MUTUAL FUND SCOREBOARD

FUND/FUND GROUP	TELEPHONE		FUND/FUND GROUP	TELEPHONE	
	TOLL FREE (800)	IN-STATE		TOLL FREE (800)	IN-STATE
AAL Mutual Funds	553-6319	WI 414-734-7633	Legg Mason Family of Funds	822-5544	MD 301-539-3400
AARP Investment Program	253-2277	MA 617-330-5400	Lexington Group	526-0057	NJ 201-845-7300
ABT Family of Funds	289-2281	FL 407-655-7255	Liberty Advantage Group	872-5426	MA 617-722-6000
Advantage Government Securities	243-8115	MA 617-742-9858	Liberty Family of Funds	245-5051	PA 412-288-1900
Advest Advantage Group	243-8115	MA 617-742-9858	Limited-Term Muni. National	847-0200	NM 505-984-0200
AIM Funds	347-1919	TX 713-626-1919	Lord Abbett Family of Funds	874-3733	NY 212-848-1800
AMEV Group	800-2638	MN 612-738-4000	MFS Family of Funds	225-2606	MA 617-954-5000
Alliance Capital Group	227-4618	NJ 201-319-4000	MFS Lifetime Group	225-2606	MA 617-954-5000
American Capital Group	421-5666	TX 713-993-0500	Mackenzie/Ivy Group of Funds	456-5111	FL 407-393-8900
American Funds Group	421-0180	CA 213-486-9200	MainStay Funds	522-4202	Use Toll-Free Number
Aquila Group	228-4227	NY 212-697-6666	Merrill Lynch Group	637-3863	NJ 609-282-2800
Arch Family of Funds	441-7379	Use Toll-Free Number	MetLife-State Street Group	882-0052	MA 617-348-2000
Atlas Funds	933-2852	Use Toll-Free Number	Monitor Funds	253-0412	OH 614-463-5580
Babson Fund Group	422-2766	MO 816-471-5200	Mutual of Omaha Group	228-9596	NE 402-397-8555
Bartlett Mutual Funds	800-4612	OH 513-621-4612	National Funds	356-5535	CT 203-863-5600
Benham Capital Management Group	472-3389	CA 415-965-4274	Nationwide Group	848-0920	OH 614-249-7855
Bernstein, Sanford C. Fund		NY 212-756-4097	Neuberger/Berman Group	877-9700	NY 212-476-8800
Blackstone Govt. Income	225-1852	Use Toll-Free Number	The New England Fund Group	343-7104	MA 617-578-1400
Blanchard Group	922-7771	NY 212-779-7979	New York Muni.	225-6864	NY 212-608-6864
Boston Company Group	225-5267	Use Toll-Free Number	Northeast Investors Group	225-6704	MA 617-523-3586
CIGNA Family of Funds	572-4462	MA 413-784-0100	Nuveen Group	351-4100	IL 312-917-7844
California Tax-Exempt Bonds	See National Funds		Oppenheimer Funds	525-7048	CO 303-671-3200
California Tax-Free Income	225-8778	CA 415-398-2727	Overland Express Funds	552-9612	AR 501-377-2566
Calvert Group	368-2748	MD 301-951-4820	Pacific Horizon Funds	332-3863	Use Toll-Free Number
Cardinal Group	848-7734	OH 614-464-6852	Pacific Funds	662-8417	NY 212-309-8400
Churchill Tax-Free Fund of Kentucky	See Aquila Group		PaineWebber Funds	647-1568	NJ 201-902-7347
Citibank IRA Investment Portfolios	248-4472	NY 212-736-8990	Parkstone Group	451-8377	OH 614-899-4666
Colonial Group	248-2828	MA 617-426-3750	Permanent Portfolio Family of Funds	531-5142	TX 512-453-7558
Columbia Funds	547-1707	OR 503-222-3606	Phoenix Funds	243-4361	CT 203-253-1000
Common Sense Trust	544-5445	Use Toll-Free Number	Pilgrim Group	331-1080	CA 213-551-0833
Compass Capital Group	451-8371	Use Toll-Free Number	Pioneer Group	225-6292	MA 617-742-7823
Composite Group of Funds	543-8072	WA 509-353-3400	Portico Funds	228-1024	WI 414-287-3808
Comstock Partners Strategy	645-6561	NY 718-895-1206	Premier Funds	242-8671	NY 718-895-1399
DMC Tax-Free Income Pennsylvania	See Delaware Group		Price, T. Rowe Funds	638-5660	MD 301-547-2308
Dean Witter Funds	869-3863	NY 212-392-2550	Princor Govt. Secs. Income	247-4123	IA 515-247-6833
Delaware Group	523-4640	PA 215-988-1333	Prudential Mutual Funds	225-1852	Use Toll-Free Number
Dodge & Cox Group		CA 415-434-0311	Putnam Funds	225-1581	MA 617-292-1000
Dreyfus Group	645-6561	NY 718-895-1206	Quest For Value Funds	232-3863	NY 212-667-7588
Dupree Mutual Funds	866-0614	KY 606-254-7741	Ranieri Adj. Rate U.S. Govt. Funds		MA 617-423-0800
Eaton Vance Group	225-6265	MA 617-482-8260	Rochester Funds	955-3863	NY 716-383-1300
Federated Tax-Free Income	356-2805	PA 412-288-1900	SAFECO Mutual Funds	426-6730	WA 206-545-5533
Fidelity Group	544-8888	MA 617-523-1919	SBSF Convertible Securities	422-7273	NY 212-903-1200
Financial Funds	525-8085	CO 303-779-1233	Scudder Funds	225-2470	MA 617-439-4644
First Investors Group	423-4026	NY 212-858-8000	Security Group	888-2461	KS 913-295-312
First Trust Funds	848-8222	CO 303-671-3200	Seligman Group	221-2450	NY 212-488-0200
Flag Investors Funds	767-3524	MD 301-727-1700	Shearson Lehman Brothers Group	451-2010	NY 212-464-8066
Flagship Group	227-4648	OH 513-461-0332	Sit "New Beginning" Group	332-5580	MN 612-332-3222
Fortress Investment Funds	245-5051	PA 412-288-1900	Smith Barney Funds	544-7835	NY 212-698-534
Franklin Group	342-5236	CA 415-570-3000	SteinRoe Mutual Funds	338-2550	IL 312-368-7880
Freedom Funds	225-6258	MA 617-725-2300	Strong Funds	368-3863	WI 414-359-140
FundTrust Group	344-9033	MA 617-423-0800	SunAmerica Funds	858-8850	NY 212-551-512
Fundamental Group	332-6864	NY 212-635-3000	Tax-Exempt Bond Fund of America	See American Funds Group	
G.T. Global Group	824-1580	CA 415-392-6181	Tax-Exempt Fund of California	See American Funds Group	
GNA Investors Group	426-5520	WA 206-625-1755	Tax-Free Fund of Colorado	See Aquila Group	
GW Sierra Trust Funds	222-5852	Use Toll-Free Number	Tax-Free Trust of Arizona	437-1020	NY 212-697-666
Gabelli Funds	422-3554	NY 914-921-5000	Tax-Free Trust of Oregon	437-1020	NY 212-697-666
Galaxy Funds	628-0414	Use Toll-Free Number	Templeton Group	237-0738	FL 813-823-871
General Municipal	See Dreyfus Group		Thomson Fund Group	628-1237	CT 203-352-490
Goldman Sachs Asset Mgmt. Group	762-5035	Use Toll-Free Number	Transamerica Funds	343-6840	TX 713-751-240
Government Income Securities	245-5051	PA 412-288-1900	Trinity Funds	456-7780	NY 716-262-408
Gradison Group	869-5999	OH 513-579-5700	Twentieth Century Investors Group	345-2021	MO 816-531-557
Grancock, John Mutual Funds	225-5291	MA 617-375-1500	U.S. Government Securities	See American Funds Group	
Hawaiian Tax-Free	228-4227	NY 212-697-6666	USAA Group	531-8181	TX 512-498-650
Investment Funds	338-4345	Use Toll-Free Number	UST Master Funds	233-1136	MA 617-451-191
Investors Govt. Income	821-5100	NY 212-353-5125	United Group	366-5465	KS 913-236-200
Investment Funds	927-3863	MN 612-376-2600	Value Line Group	223-0818	NY 212-687-396
Investment Group	328-8300	MN 612-671-3733	Van Eck Funds	221-2220	NY 212-687-520
Intermediate Bond Fund of America	See American Funds Group		Van Kampen Merritt Family of Funds	225-2222	IL 708-684-600
Investment Trust of Boston Prem. Inc.	955-7175	NY 212-446-5606	Vanguard Group	662-7447	PA 215-669-100
Investment Funds	525-8983	CO 303-333-3863	Venture Funds	279-0279	NM 505-983-433
Investment Funds	621-1048	IL 312-781-1121	Voyageur Funds	553-2143	MN 612-341-672
Investment Funds	621-1048	IL 312-781-1121	WPG Mutual Funds	223-3332	NY 212-908-958
Investment Funds	343-2898	MA 617-338-3400	Westcore Group	666-0367	CO 303-623-257
Investment Funds	343-2898	MA 617-338-3400	William Blair Mutual Funds	635-2886	IL 312-346-483

CLOSED-END FUNDS: IS THE DOOR SHUT?

Many, especially bond funds, are too pricey for new investors

With stocks rising to all-time highs and interest rates descending into Death Valley, no wonder that both stock and bond closed-end funds are on a tear. Unlike mutual funds, which sell shares directly to the public, closed-enders trade on the exchanges and have been lifted by widespread enthusiasm for growth stocks and hunger for yields. Equity closed-end funds tracked by Morningstar Inc. earned in a 40% total return in '91, while their portfolios matched the 30.4% gain in the Standard & Poor's 500-stock index. Bond-fund shares gained 22.5% as their portfolios rose 18% vs. the 16.1% gain in the Lehman Brothers Govt./Corp. Index.

But 1991's frolics spell trouble for 1992. A glance at BUSINESS WEEK's annual closed-end-fund Scoreboard that follows shows that closed-end funds are anything but a bargain. Among the 60 equity closed-end bond funds on the Scoreboard, 17 were above their net asset values at yearend, while 21 of the 50 large equity funds on the Scoreboard were at or above their NAVs.

BYE, BONDS. The premium preponderance is bad news for investors who want to latch on to the closed-end bandwagon. Some closed-end fund managers advise against buying the funds unless they are at a substantial discount. That would argue against the ferocious market for bond closed-end funds in particular. Except for one small high-yield bond fund, the F&G Pacholder, "I can't think of any bond funds that I would recommend for purchase right now," says Catherine Gilman, editor of *Morningstar Closed-End Funds*.

The Scoreboard makes it obvious why bond funds have been so popular in recent months. Yields of

7% or higher are commonplace, with some boasting double-digit yields. But such numbers should be viewed skeptically, because they often stem from investments in junk bonds, which performed well last year, or the perilous use of leverage. The top performer was a junk fund with a nearly 12% yield, the High Income Advantage Trust II fund, which realized a total return of 72.8% on a portfolio gain of 47.5%.

Buying into leveraged funds will pay off if rates continue on a downtrend, but the funds will be hammered if rates rise unexpectedly. Funds that use leverage are mainly municipal-bond funds, because the strategy has been the most profitable there. But Gillis prefers the nonleveraged Dreyfus Strategic Municipals fund—but only if there is a substantial decline in its premium, which has been in the 6% range. Its share price doesn't fluctuate much, notes Gillis.

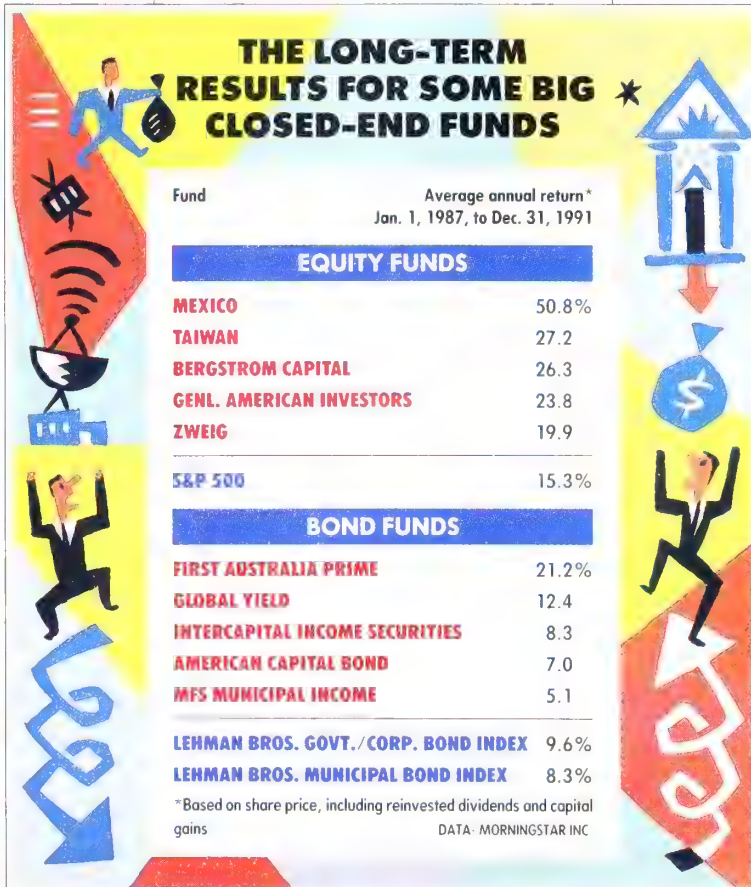
Even funds that don't rely on leverage can wind up behind the eight ball if rates rise. The American Capital Bond fund gained a nifty 31.6% in 1991 because of the rate decline and a well-timed foray into junk. However, the fund's five-year record was pulled down to only 7% (table) by total returns of less than 4% a year in 1987 and 1989, when rates climbed.

CASHING OUT. Among equity closed-end funds, the big gainers latched on to the biotechnology boom and the hottest overseas stock markets. Among the Scoreboard funds, the Latin American Investment fund was the biggest gainer, with a 172.6% total return, closely followed by the Hambrecht & Quist Healthcare Investors fund, with a gain of 143.6% on a portfolio that rose 94%. Not surprisingly, that fund is at the high end of its premium range, which has been as lofty as 15% during the year. Such funds will be hard-pressed to turn in a repeat performance in the year ahead, and some closed-end fund investors are cashing them in. "With the market at record highs, I've been more aggressive in taking profits," says Thomas J. Herzfeld, a Florida investment adviser specializing in closed-end funds.

If you venture into closed-end funds, fund mavens suggest, turn a blind eye to high yields, and avoid 1991's winners and bond funds trading at a premium over NAV of 2% or more. One bond fund that tickles the fancy of Steve Samuels, editor of the *Deep Discount Digest* newsletter, is the Global Yield fund, which at yearend was trading at a discount of nearly 10% below net asset value. The fund was a laggard in 1991, largely because it was forced to omit its fourth-quarter dividend. But that was because of currency-related losses rather than a stock-picking goof. Also, the fund plans to go open-end if its discount remains steep. If that happens, shareholders will convert their stock at NAV.

Samuels also likes muni funds. "We think that will be the next area of opportunity"—once their prices fall into line with NAV. Premiums are like a flashing red traffic light—ignored at your own risk.

By Gary Weiss, with Suzanne Woolley, in New York



CLOSED-END
EQUITY FUNDS

MUTUAL FUND SCOREBOARD

CLOSING EQUITY	OBJECTIVE	SIZE ASSETS \$ MIL.	FEES EXPENSE RATIO (%)	1991 RESULTS			TREND 3-YEAR ANALYSIS	1991 SHARE DATA			
				TOTAL RET. (%)		YIELD		PRICE		DIFFERENCE FROM NAV	
				NAV	SHARES			HIGH-LOW	12/31	HIGH-LOW	12/31
ADAMS EXPRESS	Growth	661.9	0.58	31.3	40.8	2.7		19 3/8 - 15	19	-3.5 - -14.5	-6
ALLIANCE GLOBAL ENVIRONMENT	Growth	92.2	1.49	5.6	7.5	1.6		12 5/8 - 10 3/4	11 5/8	-10.6 - -18.7	-12
ALLMON TRUST	Growth	125.3	1.31	11.9	3.9	4.4		10 3/8 - 9 3/4	10	1.1 - -8.6	-3
ASA LIMITED	Precious metals	404.4	0.66	-4.2	6.7	4.2		52 1/2 - 41 7/8	46 7/8	14.6 - -2.6	11
ASIA PACIFIC	International	107.6	2.44	23.3	52.7	1.0		13 7/8 - 12	12 3/4	4.2 - -10.1	4
BAKER FENTRESS	Growth	417.4	0.93	27.0	34.0	3.1		18 - 15 7/8	17 7/8	-14.4 - -18.7	-18
BERGSTROM CAPITAL	Growth	120.9	0.88	74.4	107.4	0.9		122 5/8 - 64 1/4	122 5/8	16.9 - -3.4	16
BRAZIL	International	166.6	2.15	131.2	122.6	0.0		17 7/8 - 8 7/8	14 3/4	31.1 - -7.1	6
CENTRAL SECURITIES	Growth	131.6	0.96	26.3	28.9	1.5		9 1/2 - 8 3/4	9 1/4	-17.2 - -21.4	-20
CHILE	International	164.0	1.77	95.1	73.6	1.4		32 3/4 - 16 7/8	23 7/8	-0.9 - -21.4	-21
DUFF & PHELPS UTILITIES INCOME	Utilities	1863.4	1.17	25.6	24.6	7.7		10 - 8 3/4	10	8.4 - 3.2	4
EMERGING GERMANY	International	127.3	1.70	-0.3	4.8	3.0		8 1/4 - 7 3/8	7 3/4	-7.6 - -17.3	-14
EMERGING MEXICO	International	92.1	2.22	86.4	130.8	1.6		18 3/4 - 9	18	0.0 - -19.6	0
EUROPE FUND	International	105.1	1.00	-0.7	9.5	3.1		12 3/8 - 10 1/2	11 1/2	-8.7 - -14.6	-8
FIRST PHILLIPINE	International	102.7	1.95	26.1	35.9	2.2		8 3/4 - 7 3/8	8 5/8	-16.2 - -27.5	-23
FRANCE GROWTH	International	123.8	1.95	5.0	5.9	2.7		9 3/8 - 7 1/2	8 7/8	-15.0 - -21.7	-16
FUTURE GERMANY	International	180.7	1.29	3.4	12.3	0.0		13 1/2 - 11 1/2	12 3/4	-7.6 - -16.3	-12
G. T. GREATER EUROPE	International	181.2	1.87	1.3	6.6	1.2		10 3/4 - 9 1/8	9 1/2	-6.7 - -17.1	-16
GABELLI EQUITY	Growth	595.1	1.20	13.7	9.7	6.0		11 3/4 - 9 3/4	10 1/4	1.4 - -12.4	-3
GEMINI II CAPITAL	Growth	186.0	0.00	50.6	42.0	0.0		13 7/8 - 10 5/8	13 1/4	-15.3 - -23.2	-22
GEMINI II INCOME	Income	109.1	NA	23.7	37.0	12.1		13 5/8 - 12	13 5/8	39.9 - 26.4	36
GENERAL AMERICAN INVESTORS	Growth	587.2	1.07	61.1	85.0	0.3		29 - 19	29	-5.2 - -15.6	-5
GERMANY	International	146.7	1.58	1.4	11.6	0.0		13 1/8 - 10 7/8	12	14.7 - 4.7	9
GROWTH FUND OF SPAIN	International	203.9	1.38	16.1	17.2	1.6		11 - 8 7/8	9 3/8	-6.1 - -19.9	-19
H&Q HEALTHCARE INVESTORS	Health care	127.0	1.73	94.2	143.6	0.2		25 3/4 - 12	25 3/4	15.0 - -10.7	12
KOREA	International	235.9	1.50	-2.1	4.0	0.4		17 3/8 - 12 1/4	12 5/8	54.9 - 19.7	19
LATIN AMERICA INVESTMENT	International	104.0	2.21	112.3	172.6	3.7		31 1/8 - 12	26 1/2	11.2 - -18.1	1
LIBERTY ALL-STAR EQUITY	Growth	601.3	1.19	39.3	53.9	9.5		10 3/4 - 8	10 3/4	-3.0 - -14.6	-4
MALAYSIA	International	97.1	1.93	8.2	3.9	0.6		14 5/8 - 11 1/4	11 3/4	4.8 - -13.2	-12
MEXICO	International	495.7	1.25	72.6	80.8	0.4		26 1/8 - 14	22 1/4	6.9 - -18.2	-12
NEW GERMANY	International	349.7	1.21	-0.4	-3.8	0.0		12 1/8 - 9 3/4	10 3/4	-6.9 - -17.3	-14
NIAGARA SHARE	Growth	215.8	1.22	20.1	35.6	2.2		15 1/2 - 12 1/4	14 5/8	-4.4 - -16.6	-4
PETROLEUM & RESOURCES	Natural resources	314.0	0.29	6.5	12.3	3.4		28 3/8 - 25 1/2	26	-1.8 - -11.6	-7
PILGRIM REGIONAL BANK SHARES	Financial	101.1	1.40	49.5	47.5	2.7		10 - 7 5/8	9 1/2	1.0 - -8.9	-6
QUEST FOR VALUE CAPITAL	Growth	406.8	0.00	37.7	47.1	0.0		17 5/8 - 12 1/2	17 5/8	-22.0 - -29.9	-22
QUEST FOR VALUE INCOME	Income	208.9	0.80	11.2	15.5	10.6		13 3/4 - 13 1/8	13 3/8	18.6 - 13.1	15
R. O. C. TAIWAN FUND	International	244.2	2.09	12.3	47.2	0.0		10 3/8 - 8	10 1/4	7.6 - -20.6	7
ROYCE VALUE TRUST	Small company	154.7	0.90	38.8	35.6	1.6		10 3/4 - 8 3/4	10 3/8	1.4 - -11.7	-7
SALOMON BROTHERS	Growth	1115.2	0.43	32.7	42.5	3.1		13 7/8 - 11 1/2	13 7/8	-10.2 - -17.5	-11
SCUDDER NEW ASIA	International	105.5	1.79	12.4	27.6	0.6		16 3/8 - 13 1/8	15 1/8	6.8 - -11.4	1
SCUDDER NEW EUROPE	International	161.3	1.85	3.2	6.7	8.5		9 5/8 - 8 1/8	8 1/2	-11.1 - -19.2	-15
SOURCE CAPITAL	Growth/income	317.7	0.99	22.0	32.4	5.6		44 1/4 - 39 3/4	44 1/4	9.1 - 2.1	7
SPAIN	International	119.8	1.98	16.5	26.0	1.4		16 7/8 - 10 3/4	13	37.4 - -3.4	6
SWISS HELVETIA	International	110.5	1.77	5.0	11.8	0.2		13 7/8 - 11 7/8	13 1/4	6.9 - -10.3	-4
TAIWAN	International	167.9	2.11	26.6	20.1	0.0		25 - 21 3/8	24 5/8	36.8 - 2.3	17
TEMPLETON EMERGING MARKETS	International	198.6	1.91	68.7	105.3	0.3		22 1/4 - 13 3/4	22 1/4	31.3 - -0.2	31
THAI	International	151.3	1.84	20.5	8.5	1.3		20 - 15 1/8	16 1/8	22.4 - 0.6	6
TRI-CONTINENTAL	Growth	1871.3	0.67	28.2	42.6	2.6		27 3/4 - 21 7/8	27 3/4	-1.5 - -14.5	-2
ZWEIG	Growth	526.2	1.28	30.1	35.9	1.7		13 3/4 - 11 3/8	13 3/4	13.3 - 3.4	10
ZWEIG TOTAL RETURN	Growth/income	648.1	1.11	19.8	32.0	2.2		10 5/8 - 9 1/8	10 5/8	11.1 - -1.0	8

* Not available. NM = Not meaningful

See page 93 for an explanation of terms not defined below

DATA: MORNINGSTAR INC.

HOW TO USE THIS TABLE

Closed-end funds are publicly traded companies that own a portfolio of investment securities. The value of a fund's shares depends on two variables: the underlying value of its portfolio of securities and the level of demand for the fund's shares. The first column of the column headings in this table reflects the special characteristics of closed-

NET ASSET VALUE

The market value of a closed-end fund's assets expressed in per-share terms is called net asset value, abbreviated NAV in the column headings.

1991 RESULTS

The first column is the total return that a fund earned on its invested assets or NAV. The second column is the total return that an investor would have earned by owning the fund's shares.

TREND

The amount of color in each box indicates performance of the fund's shares relative to those of all other funds.

1991 SHARE DATA

The final column shows the relationship between a fund's share price and NAV. Shares in a closed-end fund usually trade for less than the NAV of the fund's portfolio. The median discount is 4.3% for stock funds and a 4.3% premium for bond funds.

MUTUAL FUND SCOREBOARD

	OBJECTIVE	SIZE \$ MIL	FEES EXPENSE RATIO (%)	1991 RESULTS		PORTFOLIO		TREND 3-YEAR ANALYSIS	1991 SHARE DATA		DIFFERENCE FROM NAV	
				TOTAL RET NAV	(%) SHARES	YIELD	MATURITY (YEARS)		PRICE HIGH-LOW	12/31	HIGH-LOW	12/31
AM GOVERNMENT INCOME	Government	511.2	2.02	18.0	19.2	11.1	14.4		11 1/2 - 10 3/4	11 1/4	14.0 - 4.4	5.7
AM GOVERNMENT SECURITIES	Government	710.3	1.92	17.9	21.5	11.7	14.1		10 7/8 - 10 1/4	10 3/4	8.5 - 1.3	1.4
AM GOVERNMENT SPECTRUM	Government	290.0	1.40	17.7	20.4	11.3	12.2		9 1/4 - 8 5/8	9	7.5 - 2.2	-2.2
AM MANAGED INCOME	Government	254.7	1.10	24.8	29.7	11.7	9.5		9 - 7 3/4	9	2.5 - 3.7	2.2
STATE MUNICIPAL INCOME II	Municipal	296.6	0.87	13.5	16.2	6.7	NA		10 1/8 - 9 1/2	10	1.3 - 4.5	-3.3
STATE MUNICIPAL INCOME	Municipal	350.0	0.75	11.8	19.8	6.6	23.8		10 7/8 - 10	10 7/8	3.0 - 2.2	3.0
ERICAN ADJUSTABLE RATE 1996	Government	260.1	3.02	10.7	9.1	8.8	19.4		10 3/8 - 10 1/8	10 1/8	7.1 - 4.2	4.8
ERICAN CAPITAL BOND FUND	Corporate	218.2	0.71	17.0	31.6	8.7	18.7		20 1/8 - 17	20 1/8	1.2 - 9.1	1.2
ERICAN GOVERNMENT INCOME PORT.	Government	243.0	2.76	28.4	22.8	9.5	17.7		10 5/8 - 9 1/4	10 5/8	4.6 - 0.0	2.4
ERICAN OPPORTUNITY INCOME	Government	221.7	3.35	25.5	25.2	9.8	25.5		10 3/4 - 9 3/4	10 3/4	5.8 - 1.3	2.1
EX MUNICIPAL FUND	Municipal	204.9	0.84	4.2	9.9	8.1	24.0		11 3/4 - 11 3/8	11 1/2	7.1 - 4.4	7.1
ACKSTONE INCOME	Government	605.1	1.10	25.5	32.0	9.7	17.9		10 7/8 - 8 7/8	10 5/8	10.7 - 2.0	8.9
ACKSTONE TARGET TERM	Government	1006.0	0.93	21.7	17.6	8.7	15.6		10 7/8 - 10 1/8	10 7/8	9.2 - 2.5	3.2
OLONIAL HIGH-INCOME MUNI.	Municipal	273.2	0.96	7.7	5.7	8.8	24.2		9 1/4 - 8 5/8	8 5/8	3.7 - 3.2	-3.2
OLONIAL MUNICIPAL INCOME	Municipal	216.4	0.87	5.4	7.1	9.3	23.9		8 3/4 - 7 5/8	7 5/8	7.0 - 5.3	-5.3
AN WITTER GOVT. INCOME	Government	566.7	0.75	12.8	17.0	8.7	10.9		9 1/2 - 9 1/8	9 1/2	-1.3 - 5.8	-3.1
KEYFUS STRATEGIC MUNICIPALS	Municipal	518.5	0.88	11.4	16.2	7.1	23.1		10 7/8 - 10 1/2	10 5/8	9.3 - 5.4	5.7
KEYFUS STRATEGIC MUNI. BOND	Municipal	413.5	0.86	10.9	13.5	7.3	24.8		9 7/8 - 9 1/2	9 3/4	4.1 - 0.0	0.5
EST AUSTRALIA PRIME INCOME	International	966.3	2.54	26.7	37.7	10.1	6.2		11 1/8 - 9 3/8	11 1/8	11.0 - 9.0	-1.0
ANKLIN UNIVERSAL	Corporate	285.4	4.34	53.2	59.4	12.6	8.2		7 3/4 - 5 5/8	7 1/2	-1.3 - 6.6	-6.0
OBAL GOVERNMENT PLUS	International	377.8	1.43	10.7	17.5	8.8	10.9		7 7/8 - 7 1/4	7 3/4	0.0 - 8.9	-6.4
OBAL INCOME PLUS	International	250.7	1.13	13.2	17.7	9.5	7.1		10 1/4 - 9 3/8	10 1/4	4.3 - 3.7	4.3
OBAL YIELD	International	593.4	1.05	8.5	9.6	6.9	4.0		8 3/4 - 7 7/8	8 1/8	-0.4 - 9.6	-9.6
GH-INCOME ADVANTAGE II	Corporate	209.4	1.09	47.5	72.8	11.9	9.4		5 1/2 - 3 3/4	5 1/4	-7.1 - 17.0	-8.1
PERION TOTAL RETURN	Government	278.5	1.10	18.2	25.6	11.0	6.4		11 3/4 - 10 5/8	11 3/8	2.2 - 2.3	0.2
TERCAPITAL INCOME	Corporate	222.2	0.00	20.2	35.5	9.4	NA		21 1/8 - 17 3/8	21 1/8	16.0 - 2.0	16.0
MPER INTERMEDIATE GOVERNMENT	Government	306.9	0.93	15.1	10.3	9.7	8.0		9 5/8 - 9	9	8.0 - 1.5	-1.5
MPER MUNICIPAL INCOME	Municipal	659.4	0.73	16.1	18.5	7.0	25.6		12 3/8 - 11 1/2	12 3/8	4.3 - 1.2	2.3
'S CHARTER INCOME	Corporate	934.5	1.03	24.9	33.1	10.9	10.1		10 7/8 - 9 1/8	10 3/8	3.4 - 9.5	-3.1
'S GOVT. MARKETS INCOME	Government	803.1	1.07	13.6	15.5	9.3	14.8		8 3/4 - 7 1/2	7 7/8	7.2 - 6.1	-4.5
'S INTERMEDIATE INCOME	Government	1681.8	1.02	13.1	16.9	9.0	6.5		8 1/4 - 7 1/2	7 7/8	-0.8 - 7.6	-6.6
'S MULTIMARKET INCOME	Corporate	987.2	1.37	23.4	26.7	10.3	19.3		8 5/8 - 7 3/8	7 1/2	9.5 - 7.1	-7.1
'S MUNICIPAL INCOME	Municipal	326.5	1.30	8.5	16.6	8.2	21.3		9 3/8 - 8 7/8	8 7/8	5.5 - 0.9	-0.9
UNIHANCED	Municipal	487.2	0.70	16.0	29.3	6.4	23.7		12 7/8 - 11 3/8	12 7/8	6.8 - 1.0	6.8
UNIVEST	Municipal	855.6	0.66	15.2	25.7	6.8	21.2		10 3/4 - 9 1/2	10 3/4	7.9 - 0.7	7.9
VEEN CA INVESTMENT QUALITY	Municipal	278.9	0.76	12.4	9.0	6.1	23.3		15 5/8 - 15	15 1/4	7.6 - 2.6	2.6
VEEN CA PERFORMANCE PLUS	Municipal	272.1	0.77	14.0	10.8	6.6	25.1		15 3/4 - 15 1/8	15 3/8	7.2 - 2.2	2.2
VEEN INSURED QUALITY	Municipal	809.4	0.75	13.6	11.2	5.4	25.1		15 7/8 - 14 7/8	15 7/8	8.1 - 4.4	5.5
VEEN INVESTMENT QUALITY	Municipal	777.0	0.74	15.9	16.7	6.9	24.3		16 1/8 - 14 3/4	16 1/8	6.6 - 2.4	5.3
VEEN MUNICIPAL ADVANTAGE	Municipal	916.2	0.74	15.7	19.0	6.9	24.0		16 - 14 7/8	16	6.1 - 4.1	6.0
VEEN MUNICIPAL MARKET OPPOR.	Municipal	967.2	0.74	16.1	19.0	6.9	25.4		16 - 15	16	5.5 - 3.5	4.4
VEEN MUNICIPAL VALUE	Municipal	1701.7	0.85	11.6	15.5	6.5	23.2		11 - 10 1/4	11	5.4 - 0.7	5.0
VEEN NY INVESTMENT QUALITY	Municipal	372.1	0.78	14.7	13.6	5.9	27.4		16 - 15	16	9.3 - 3.5	5.3
VEEN PERFORMANCE PLUS	Municipal	1244.6	0.75	16.0	18.2	6.8	24.5		15 1/8 - 14 1/4	15 1/8	3.5 - 1.5	1.5
VEEN PREMIUM INCOME	Municipal	1161.4	0.65	15.0	19.9	6.6	21.9		16 7/8 - 15	16 7/8	7.3 - 0.8	7.3
PENHEIMER MULTISECTOR INCOME	Corporate	303.8	1.22	19.8	29.5	10.6	10.8		11 3/8 - 9 1/4	11	7.2 - 10.4	2.7
TRIOT PREMIUM DIVIDEND I	Corporate	214.7	1.48	31.2	35.4	9.3	NA		9 5/8 - 8 1/4	9 3/8	0.9 - 7.5	-7.5
TRIOT PREMIUM DIVIDEND II	Corporate	285.5	1.38	34.0	46.8	7.7	NA		11 5/8 - 9 1/4	11 5/8	-2.8 - 7.7	-5.9
TRIOT SELECT DIVIDEND	Corporate	230.0	1.39	30.9	39.9	10.7	NA		16 3/4 - 14	16 3/4	6.5 - 3.4	1.1
TNAM HIGH-YIELD MUNICIPAL	Municipal	229.3	0.90	10.6	29.2	8.3	23.6		9 3/4 - 8 5/8	9 3/4	9.3 - 3.2	7.9
TNAM INTERMEDIATE GOVT. INCOME	Government	604.3	1.00	15.1	13.2	7.6	7.4		9 7/8 - 8 7/8	9 1/4	4.2 - 2.6	-2.6
TNAM INVESTMENT GRADE MUNI.	Municipal	369.1	1.46	16.7	22.9	7.1	24.0		12 1/2 - 11 3/8	12 1/2	6.4 - 3.2	5.8
TNAM MANAGED MUNI. INCOME	Municipal	588.7	0.78	15.2	20.4	7.5	24.5		10 1/8 - 9 1/2	10 1/8	6.2 - 3.3	5.4
TNAM MASTER INCOME	Corporate	480.4	0.88	24.9	27.5	10.0	7.7		8 3/8 - 7 1/4	8 1/4	-4.1 - 11.5	-8.6
TNAM MASTER INTERMEDIATE	Corporate	326.8	0.96	23.3	28.6	9.9	6.4		8 - 6 7/8	7 3/4	-3.3 - 11.2	-7.6
TNAM PREMIER INCOME	Corporate	1181.5	0.89	19.6	22.2	9.7	8.6		7 3/4 - 7 1/4	7 3/4	-1.9 - 8.9	-8.1
IGMAN SELECT MUNICIPAL	Municipal	228.5	0.90	15.2	17.0	6.9	26.8		12 3/8 - 11 5/8	12 1/4	5.7 - 1.6	2.5
APLETON GLOBAL INCOME	International	1041.7	0.82	14.8	18.9	9.6	9.4		8 7/8 - 8	8 7/8	1.7 - 5.4	0.1
ER CABOT MORTGAGE SECURITIES	Government	334.0	1.13	16.6	21.5	10.4	18.1		12 1/8 - 11 1/4	12 1/8	5.1 - 1.0	4.9
N KAMPEN MERRITT MUNI. INCOME	Municipal	439.2	1.46	15.1	20.8	7.1	24.6		10 3/4 - 9 5/8	10 3/4	5.1 - 0.2	5.0

= Not available. NM = Not meaningful

See page 106 for an explanation on how to use this table

DATA: MORNINGSTAR INC



EDITED BY AMY DUNKIN

Investing

TAKING YOUR PORTFOLIO ON THE GRAND TOUR

From his 17th-floor office, a few blocks off Boston's Post Office Square, Gary Bergstrom enjoys a view of the neoclassical Custom House Tower standing watch over the bustling harbor. It's only fitting that the avuncular MIT-math-whiz-turned-money-manager should have chosen such a spot. Bergstrom, 50, is a dyed-in-the-wool globalist.

President of Acadian Asset Management, responsible for \$1.6 billion, Bergstrom has argued for nearly two decades that by not putting your money to work in the global stock market, you're missing out on a lot of good bets. Right now, that means midsize growth issues. So he's moving some of the cash he handles for Bell Atlantic, Southern California Edison, and other clients into Britain's Lex Service, a \$2.7 billion-a-year auto distributor that currently sports an inviting 14.5% yield.

GLOBAL ENTRY. With the U.S. economy becoming increasingly dependent on world markets, a growing number of investors are coming to Bergstrom's point of view. In 1991, a bevy of

bourses outdistanced the 27% gain in the Standard & Poor's 500-stock index, with the Hong Kong market up 47% and Buenos Aires' red-hot *bolsa* up a staggering 403%. Higher yields in many other markets helped bring in hefty returns, too.

Not too long ago, only a Bell or an Edison could have taken full advantage of such opportunities. But a wave of liberalization sweeping the world's bourses is now affording individuals easier entry to the game. In the past few years, scores of international stock and bond mutual funds have appeared in the U.S.

alongside such pioneers as the Templeton Growth Fund. And hundreds of companies from Australia to Sweden have listed shares in the U.S., usually in the form of American Depositary Receipts (ADRs), certificates representing ownership of shares issued abroad.

STAGGERED BEARS. A few ADRs have become stellar performers: British drugmaker Glaxo Holdings, for instance, has rocketed nearly 50% in the past year alone. But if ADRs don't offer enough excitement, you can deal with a growing corps of stockbrokers who specialize in trading on overseas bourses. "Some

people want the really exotic," says Janine Lee Craane, Merrill Lynch broker in New York.

Even if you stick to such blue chips as Royal Dutch/Shell, Unilever, or Nestle, investing only 10% to 15% of your portfolio abroad may provide you with a fair degree of protection if Wall Street's current boom fades. Gunter Ecklebe of pension consultant Frar Russell Co. reasons that while global markets sometimes move together for a few days or weeks, as they did after the 1987 crash, they don't march in lockstep over the long haul. Money manager John Templeton's experience illustrates that principle: About 40% of his \$3.1 billion Growth Fund is now invested in Germany, New Zealand, and other countries. Over the past 37 years, such a mix of U.S. and foreign equities has produced a 14.5% annual return, vs. 11% for the S&P 500. "Bear markets occur everywhere," says Templeton, "but not at the same time."

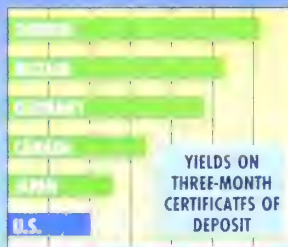
Be prepared for surprises from the currency market, too, if you decide to go global. A rise in the value of the dollar could

WHY THE PROS ARE LOOKING ABROAD

CHEAPER STOCKS...



...AND HIGHER YIELDS





ash the value of foreign holdings. But with Japan now running \$100 billion balance-of-payments surpluses and with Europe preparing to launch a single currency, many foreign-exchange experts expect the greenback to continue its long slide.

G PLUNGE. That alone might be a good enough reason for looking abroad. But you should get a feel for the bourses first. Study the currency and foreign-stock-market quotations appearing daily in the business press. And peruse quarterly reports from international mutual funds such as Merrill Lynch Global Allocation. It combines a wide range of U.S. issues with such foreign stocks as Switzerland's Nestlé. In fact, most pros urge anyone planning to invest less than \$25,000 abroad to stick to funds. That's because overseas trading commissions can run as high as

1% of small orders. Money manager Bergstrom, for instance, likes the Ivy International Fund for his own account. A "very aggressive" performer, it has produced a 15% annual return over the last five years.

If you want to take a bigger plunge—or like to follow individual issues—many recommend Europe, which is coming off a lackluster 1991. Although the German Bundesbank's record-high interest rates are prolonging

the current European recession, Shearson Lehman Brothers strategist Steve Nagourney sees looser money—and a recovery—later this year and in 1993. Nagourney is especially high on German issues, including Deutsche Bank and Felten & Guillaume Energie-

in the hottest developing economies of Latin America and Asia, the fund is "a natural bet for the next 10 years." And then there's Tokyo. Even after the market's 50% plunge, Wirz still likes drug-maker Sankyo—"the Merck of Japan"—and cosmetics

for years, yields still remain high abroad. David Kenerson Jr. of New York's Van Eck Associates notes that medium-term Spanish government bonds now yield around 11%. The most efficient way to capture such yields is through global bond funds. Van Eck's

World Income Fund, for instance, posted a 19.6% total return in 1991. With European interest rates expected to fall in coming months, 1992's results "won't be as spectacular," cautions Mark Turner of the Scudder International Bond Fund. But he and others still expect yields overseas to remain above those in the U.S.

If you can't bother with the chore of keeping up with bourses from Sweden and Singapore, there is still a way to make your portfolio more worldly: Buy shares of U.S. companies that generate a hefty portion of their earnings

overseas. Scudder, Stevens & Clark's Lincoln Rathnam estimates that Latin America accounts for 25% of J.P. Morgan's trading and underwriting profits. Or take Coca-Cola Co. Europe, Indonesia, and a host of other thirsty regions now produce 80% of its net.

For many such multinationals, putting assets to work on a global scale is routine practice. For many pros, the same logic holds for individuals as well. *William Glasgall*

INVESTING IN THE GLOBAL ECONOMY

Company	Price*	Percent change since Jan. 1, 1991	Description
COCA-COLA	\$77	71%	Sweet profits in Europe, Asia
INSTITUT MERIEUX	¥51	61	French vaccine pioneer
KEIYO	27	48	Japanese housewares retailer
TELEFONICA	¥1	40	Spain's AT&T
J.P. MORGAN	54	30	Foreign profits surging
POLYGRAM	23	30	Dutch entertainer
HOFFMANN-LA ROCHE	178s	21	Swiss drug giant
DEUTSCHE BANK	—	—	—
SHISEIDO	—	—	—
DESC	—	—	—

technik, a wire and cable manufacturer doing big business in the country's awakening east. But there's more to Europe than Germany. Fiduciary Trust Co. International's Pascal Wirz is buying Institut Merieux International, a French vaccine producer, as well as Dutch entertainment giant Polygram.

If you have a taste for more adventure, Francis Ledwidge of Bankers Trust suggests Templeton's Emerging Markets Fund. With holdings

manufacturer Shiseido. Holding some of these issues may subject you to foreign withholding taxes on dividends. So you might need to file with the Internal Revenue Service to receive a credit against your U.S. taxes. But most global investors regard this as a minor annoyance.

STRONG BONDS. Don't forget about bonds when you get ready to invest globally. Although the Federal Reserve has been pushing down U.S. interest rates to levels unseen

Software

LET A PC PLAN YOUR RETIREMENT

Living comfortably in retirement is a big part of the American dream. But you can spend many a sleepless night pondering how much you need to save to make it come true. Instead, three new computer programs can do the job in seconds.

While many brokers and financial advisers provide plans after days or weeks of analyzing your investments, new Shearson Lehman Brothers' software lets the firm's reps produce a free analysis while you wait. Or, if you have a PC, you can make your own plan and update it any time. Novice computer users will prefer T. Rowe Price's \$15 Retirement Planning Kit (800 541-3036). Calypso Software's \$99 Retire ASAP provides a more detailed plan (800 225-8246).

The programs ask for your age, retirement year, expect-



ed pension, current investment data, and whether you're an aggressive, moderate, or conservative investor. They quickly compute such things as what you'll collect from Social Security and how inflation will affect your dollars. Then, they use actuarial data to determine how many years you'll have to live off your investments and what

you should save by the time you quit work. For example, the T. Rowe Price analysis says a 45-year-old making \$75,000 after taxes will need \$745,350 to retire at 65.

WHAT IF'S. Administered by a financial consultant at your elbow, Shearson's program can help you set goals—but you might also get a sales pitch for its investment prod-

ucts. The T. Rowe Price program includes a soft pitch, too: on-screen promotion for its mutual funds. But it lets you quickly estimate retirement costs with either a rule-of-thumb assumption that they'll run 60% to 80% of present expenditures or estimates of what you'll spend on clothing, travel, and such. Once you see how much you'll need to save, a keystroke compares a lump-sum withdrawal of tax-deferred savings to taking cash out periodically.

Calypso's weightier Retire ASAP program lets you produce up to 10 what-if scenarios—for instance, how you would fare if Social Security payments grew 3% annually or you quit your job and lost a pension. It also offers guidance. Where T. Rowe Price's program assumes a paid-off mortgage by retirement, Retire ASAP suggests that you consider a reverse annuity mortgage, wherein a bank pays you in advance for your home and lets you continue to occupy the house during your lifetime. The software even gives tips on housing choices, medical care, and leisure activities.

Don Dunn

Smart Money

REPLANTING DIVIDENDS: IT'S EASY AND CHEAP

When money seems tight, it's easy to put investing on the back burner. But there's a relatively painless way for owners of dividend-paying stocks to beef up their holdings. More than 700 companies let shareholders automatically reinvest dividends into more stock. Usually, that lets you bypass a brokerage fee. And some companies even give a discount on the stock itself.

Such dividend reinvestment plans (DRPs) employ a time-honored investment technique: dollar-cost averaging. By investing a fixed amount at regular intervals, you buy fewer shares when the stock price is high and more when the price is low. A \$500 investment, for example, would buy 10 shares of a stock at \$50, and 20 shares if it fell to \$25. The result, that results in an average price to you that's

lower than the stock's average market price.

Banks and electric utilities dominate DRP rosters. A few foreign companies with

American Depositary Receipts (ADRS), which represent shares of foreign companies traded in the U.S., offer DRPs as well, including SmithKline Beecham and British Petroleum. Most companies don't charge administrative fees for the plans, so the entire dividend check goes toward more shares.

TAXABLE. Even better, about 100 companies offer a discount, usually 3% or 5%, for shares bought with reinvested dividends. You can find a list in S&P's *Directory of Dividend Reinvestment Plans* (\$70 for two issues; \$39.95 for one; 800-777-4858). Evergreen Enterprises has a

\$28.95 guide (P. O. Box 763, Laurel, Md., 20725-0763).

Investors usually have to own at least one share of stock to enroll in a DRP. If you agree to have dividends reinvested, however, some companies, such as Bank of New York, Minnesota Power & Light, and Texaco, will sell you your first shares directly, up to a set dollar amount. You may also invest additional cash at set periods. Selling plan shares involves a small fee, often about 1%.

Keeping track of your DRP shares is important. Even though you haven't seen your dividends, you must enter them as income on your tax return. And while you may escape a broker's fee, you won't be able to give Uncle Sam the slip: You will be taxed on the difference between any discounted price and the shares' fair-market value.

Suzanne Woolley

DIVIDEND PLANS THAT SAVE MONEY

Company	Stock price*	Reinvestment discount
AMERICAN EXPRESS	21¾	3%
BAY STATE GAS	23¾	3
EASTERN UTILITIES	20¾	5
GREEN MOUNTAIN POWER	29¾	5

*As of Feb. 11
DATA: STANDARD & POOR'S CORP

f crowded slopes and packed snow take the thrill out of skiing, there's a different kind of adventure waiting for you—helicopter skiing. You get to ski on virgin powder at elevations of 9,000 to 13,000 feet. And you live on the ultimate lift: a whirlybird.

Skiers say schussing through the fluffy high-mountain powder feels like floating because you ski in the snow instead of on top of it, as you would on a groomed slope. "It's the best skiing there is, untracked powder every run," says Bruce Atwater, chairman of General Skis, who helicopter-skis every winter in Telluride, Colo. Heli-skiing used to mean an expensive week in the backwoods of the Canadian Rockies. Now, operators located near major ski areas in the U.S. Rockies have made it possible to take day trips and, like Atwater, "go when it's convenient."

CORN' HEAVEN. The nicest time to go is early spring, when the days are longer and warmer, and frequent heavy snowfalls improve conditions. The snow on inclines facing south can "corn up," too, a condition many skiers love. It occurs when the snow freezes and thaws over a period of time, forming crusty granules. The gliding effect skiers get on corn snow prompts Michael Friedman, program director at Telluride Helitrax, to call it "ballroom skiing."

A full-day tour costs about \$15 per person. The price includes a hot or cold box lunch, tea and hot tea—so you won't get dehydrated—and energy snacks such as apples (a nut and dried fruit mixture). Some operators also offer half-day trips and tours into the backcountry with overnight stays in lodges. Helicopter-skiing operators accept children as young as 12.

Worth Noting

SALE. This year, for as little as \$3,200—the normal cost of a single cabin—you and a companion can share a



A GUIDE TO HELI-SKIING IN THE U.S.

COLORADO HELI-SKI, P.O. Box 64, Frisco, Colo., 80443; 800 HELISKI; *Arapahoe, White River, and San Isabel National Forests*

HIGH MOUNTAINS HELICOPTER SKIING, P.O. Box 173, Teton Village, Wyo., 83025; 307 733-3274; *Snake River Range*

NORTH CASCADE HELI-SKIING, P.O. Box 367, Winthrop, Wash., 98862; 509 996-3272; *Okanogan National Forest*

SUN VALLEY HELI SKI, P.O. Box 978, Sun Valley, Idaho, 83353; 208 622-3108; *Sawtooth National Forest*

TELLURIDE HELITRAX, P.O. Box 1560, Telluride, Colo., 81435, 303 728-4904; *San Juan and Uncompahgre National Forests*

WASATCH POWDERBIRD GUIDES, P.O. Box 57, Snowbird, Utah, 84092; 801 742-2800; *Wasatch and Uinta National Forests*

Still, you must be a solid intermediate skier or better—and in good shape—to withstand the altitude and strenuous exercise. It's a good idea to train for at least two weeks with a daily aerobic workout

to build your stamina. If you're coming from sea level, plan a day or two to acclimate yourself to the altitude.

The day begins with a 45-minute safety talk that includes avalanche safety train-

double on the Queen Elizabeth 2 from New York to Southampton and fly back free to any of 11 U.S. cities. For details, call 800 221-4770.

■ **STARTING OVER.** Looking for a more entrepreneurial line of

work? More than 500 exhibitors will participate in the International Franchise Expo on Apr. 10-12 in Washington, D.C. Single-day admission is \$15; three days cost \$25. Call 800 393-1333 to register.

ing. While operators check continuously for avalanche potential, there's always the danger that unstable snow conditions will trigger a slide. Just in case, you're outfitted with a transceiver that allows you to send and receive emergency signals to and from other members of your party.

Heli-ski operators have a good safety record, but problems do crop up, ranging from malfunctioning helicopters to skiers getting lost in the woods. Guides warn you to watch out for cliffs and crevices as well as tree wells—natural hollows that form around the base of large trees. If you ski into one, you can have trouble getting out.

NATURAL HIGH. Following safety instruction, you climb aboard the helicopter. If you're new to heli-skiing, your guide explains the fine points of schussing through powder, then takes you on a run to assess your ability. A guide is assigned to every three or four persons. After each run, the helicopter whisks you up to a new untouched spot. By the end of the day, you'll have taken six or seven runs, with the final run usually starting within range of the ski resort so you can make your way back to the base.

You can rent powder equipment or bring your own downhill skis, but they must have flex. Operators may allow monoskis and snowboards, too. Goggles instead of sunglasses and a one-piece ski suit protect you from the flying powder. Temperatures change rapidly at high altitudes, so you'll want layers of clothing under the suit.

There's no drinking liquor until you're off the slopes. At 12,000 feet alcohol packs quite a wallop. But, for heli-skiers, floating through untracked powder is the greatest high of all.

Sandra Atchison

■ **SPLIT DECISIONS.** To ease financial traumas when a marriage ends, Commerce Clearing House offers *Divorce & Taxes*, a \$5, 64-page booklet on matters of interest to the IRS. Call 800 248-3248.

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1 year 16.42%
5 years 9.94%
10 years 13.26%

IDEAL FOR IRA'S

Past performance is no guarantee of future results. Investment return and principal value of an investment will fluctuate so that shares, when redeemed, may be worth more or less than the original cost. Investors should carefully read the prospectus which contains more complete information, including management fees and expenses, before investing or sending money.

For a prospectus:

Call 24 hours,

1-800-223-0818 (Ext. 1321)



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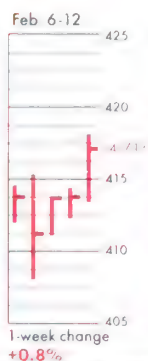
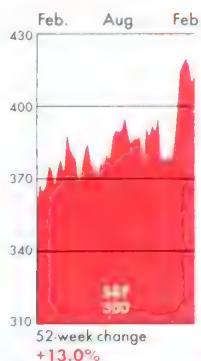
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Investment Figures of the Week

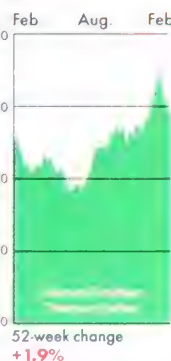
COMMENTARY

While foreign equity markets were in the decline, U.S. stocks scored impressive gains—despite continued weakness in the bond market. Technical issues were especially strong as investors look for the economic recovery to boost earnings. Housing and home furnishing stocks have been soaring recently in anticipation of a rebound in housing, but health care and drugs have pulled back somewhat after recent runups. Although many analysts are warning that the market is overvalued at these levels, the technical indicators have still not weakened.

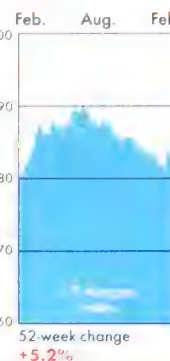
STOCKS



BONDS



THE DOLLAR



MARKET ANALYSIS

U.S. STOCKS

	Latest	% change	
		Week	52-week
DOW JONES INDUSTRIALS	3276.8	0.6	12.6
COMPANIES (Russell 1000)	222.1	0.8	15.7
ALL COMPANIES (Russell 2000)	212.6	1.6	36.4
COMPANIES (Russell 3000)	237.6	0.8	16.8

FOREIGN STOCKS

	Latest	% change (local currency)	
		Week	52-week
LONDON (FINANCIAL TIMES 100)	2523.7	-0.9	11.3
TOYO (NIKKEI INDEX)	21,541.6	-1.8	-14.3
TOKYO (TSE COMPOSITE)	3595.8	-0.3	2.2

FUNDAMENTALS

	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	3.85%	3.93%	6.0%
30-YEAR TREASURY BOND YIELD	7.81%	7.73%	8.0%
S&P 500 DIVIDEND YIELD	2.95%	2.95%	3.3%
S&P 500 PRICE/EARNINGS RATIO	25.2	24.4	16.8

TECHNICAL INDICATORS

	Latest	Week ago	Reading
S&P 500 26-week moving average	394.2	393.3	Positive
Stocks above 26-week moving average	71.6%	71.0%	Neutral
Speculative sentiment: Put/call ratio	0.34	0.36	Neutral
Insider sentiment: Vickers sell/buy ratio	1.62	1.56	Positive

INDUSTRY GROUPS

4-WEEK LEADERS

	% change	
	4-week	52-week
MACHINE TOOLS	27.2	25.4
HOMEBUILDING	20.4	81.3
FURNISHINGS AND APPLIANCES	18.2	48.1
OIL AND GAS DRILLING	17.6	-28.5
SEMICONDUCTORS	16.7	34.7

4-WEEK LAGGARDS

	% change	
	4-week	52-week
HEALTH CARE SERVICES	-13.9	90.3
BROADCASTING	-9.0	-3.0
DRUGS	-7.9	35.9
MULTILINE INSURERS	-7.1	3.2
MEDICAL PRODUCTS AND SUPPLIES	-6.8	33.0

Strongest stock in group

	% change		Price
	4-week	52-week	
CINCINNATI MILACRON	36.4	13.2	15
KAUFMAN & BROAD HOME	32.2	93.0	24 1/8
ARMSTRONG WORLD INDUSTRIES	22.1	12.9	31 3/4
ROWAN	33.3	-35.0	6 1/2
NATIONAL SEMICONDUCTOR	31.7	51.9	9 7/8

Weakest stock in group

	% change		Price
	4-week	52-week	
ALZA	-17.3	49.1	43 1/8
TELE-COMMUNICATIONS	-12.7	2.5	15 1/2
PFIZER	-12.6	52.7	73 7/8
CNA FINANCIAL	-16.7	7.6	85
BIOMET	-17.4	96.8	23 1/8

BRIDGE INFORMATION SYSTEMS INC.

MUTUAL FUNDS

LEADERS

	4-week total return	%
FIDELITY SELECT SOFTWARE & COMPUTER	13.9	
CHILD AGGRESSIVE GROWTH	13.6	
HERMAN DEAN	13.2	

	52-week total return	%
PAPPENHEIMER GLOBAL BIO-TECH	108.8	
AMERICAN HERITAGE	104.9	
BERWEIS EMERGING GROWTH	78.0	

LAGGARDS

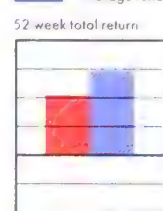
	4-week total return	%
STRATEGIC GOLD/MINERALS	-12.4	
STRATEGIC INVESTMENTS	-11.2	
FIDELITY SELECT BIOTECHNOLOGY	-7.3	

	52-week total return	%
STRATEGIC GOLD/MINERALS	-29.7	
FIDELITY SELECT ENERGY SERVICE	-26.7	
METLIFE-STATE STREET GLOBAL ENERGY	18.4	

S&P 500



Average fund



MORNINGSTAR INC.

RELATIVE PORTFOLIOS

For amounts
represent the present
value of \$10,000
invested one year ago
each portfolio

Percentages indicate
1-day total returns



U.S. stocks
\$11,579
-0.02%



Treasury bonds
\$11,132
-0.27%



Foreign stocks
\$10,976
+1.04%



Money market fund
\$10,489
+0.07%



Gold
\$9,756
-0.35%

DATA RESOURCES INC.

Data on this page are as of market close Wednesday, Feb. 12, 1992, unless otherwise indicated. Industry groups include S&P 500 companies only; performance and share prices are as of market close.

Feb. 11. Mutual fund returns are as of Feb. 7. Relative portfolios are valued as of Feb. 11. A more detailed explanation of this page is available on request.

WHAT'S WRONG WITH BUSH'S HEALTH CARE PLAN

President Bush has issued a blueprint for reforming the nation's health care system. But his plan won't curb spiraling medical costs or ensure that every American has health-insurance coverage. If anything, the Bush plan could actually make medical costs rise even faster. Its tax breaks would put more money in people's pockets to pay more for medical insurance, without providing a mechanism to control health care costs.

There are a few good ideas in the President's \$100 billion, five-year plan—including his proposal to force insurers to renew policies for employers, regardless of their workers' health records, and to provide incentives for managed-care plans, such as health maintenance organizations. Yet the Administration's overly cautious outline is fatally flawed. The President didn't explain how he would pay for his plan to offer tax breaks to the middle class and subsidies to the poor to pay for health insurance.

What is the answer? **BUSINESS WEEK** favors managed competition (BW—Oct. 7), a scheme that would give the private sector the same kind of clout in controlling costs that Washington has when it sets prices for procedures covered by Medicare. Large employers already wield pricing muscle when they negotiate rates with hospital and doctor networks known as preferred provider organizations. Small employers could get similar market power if Washington created—and forced small companies to finance—quasi-governmental regional insurance-buying companies. While forced participation may seem onerous, small companies now unfairly benefit from a system in which providers charge large employers inflated fees to subsidize treatment of workers who have no coverage.

The government also must finance research into the differences in cost, quality, and practices among doctors and hospitals. The data would let purchasers of health care know what procedures work best for specific problems, what fees are reasonable, and whose patients fare best after treatment. Studies show that high cost doesn't always mean high quality. Armed with this knowledge, employers and insurers could form networks of low-cost, high-quality providers and send workers to them. Information, not another set of tax breaks, is needed to create a market for health care that provides both quality and financial discipline.

LIFT THE VEIL OF COURT-ORDERED SECRECY

Under pressure from the Justice Dept., Dow Corning Corp. on Feb. 10 made public hundreds of pages of company documents that go back as far as 1971 and cast doubt on breast-implant safety (page 33). Eight months ago, **BUSINESS WEEK** published a story detailing the existence of those internal documents—many of which were produced

in the course of lawsuits filed by women alleging that the implants wreaked havoc on their immune systems (BW—June 10). Since then, the FDA has halted implant sales, but the litigation documents were kept sealed for years under court-approved secrecy orders.

It needn't have taken this long for the safety data to reach the public. While widely used to move cases along, court secrecy orders have been coming under intensifying attack. Increasingly, the secrecy pacts have been used in lawsuits over product liability, medical malpractice, and environmental hazards, as well as business disputes. Court-approved protective orders shield documents from the public's scrutiny during the course of the litigation. And the parties often agree to secrecy as a condition of settlement. Recently, such orders have involved consumer products such as heart valves and sleeping pills.

There can be good reasons for confidentiality. The secrecy orders may safeguard trade secrets from competitors and prevent frivolous copycat suits. Still, a broader public interest often warrants disclosure. Courts in eight states already have made confidentiality tougher to impose. But all judges should disavow secrecy pacts except on narrow points involving legitimate business secrets. Disclosure should be the rule, not the exception.

OFFSET THE DEFENSE CUTBACKS—NOW

The end of the cold war should be welcome news, but it's bringing bad economic tidings. Defense cuts are already hitting far harder than most people expected with 375,000 defense-related jobs lost since the beginning of the recession in July, 1990. If Congress and President Bush settle on slicing \$75 billion out of the Pentagon budget over the next five years, the recovery is sure to be delayed and it's likely to be disappointing when it comes.

That situation has a logical corollary: We need more expansionary monetary and fiscal policies to offset this drag on growth. The inflation risk is minimal, especially since defense has been one of the more inflationary sectors of the economy, with production regularly done on a cost-plus basis. With the defense sector shrinking and inflation trending down, the Federal Reserve need not hesitate to push interest rates still lower.

On the fiscal side, too, policymakers need to be bolder. They should recognize that spending and incentives have a role to play in mitigating the effect of defense cutbacks (page 82). Over the long run, the resources freed up should boost innovation, support new industries, create new jobs, and put the economy on a higher growth track. But the economy needs short-term help to make that transition. Real defense outlays could drop as much as 30% from the 1991 peak, removing an enormous source of fiscal stimulus from the economy. Lawmakers should push for more spending on infrastructure, education, and civilian research and development. Such spending would keep the economy growing in the short run and still be the right prescription for the country's long-term health.

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